Otter Unit

Operating Agreement

January 1, 2013

OTTER UNIT OPERATING AGREEMENT

EXHIBITS

OTTER UNIT OPERATING AGREEMENT

RECITALS

WHEREAS, the PARTIES hereto have entered into the OTTER UNIT AGREEMENT (the "UNIT AGREEMENT") with an EFFECTIVE DATE of January 1, 2013; and

WHEREAS, the PARTIES enter into this AGREEMENT pursuant to Section 7.1 of the UNIT AGREEMENT; and

WHEREAS, the PARTIES hereto own undivided interests in the oil and gas lease(s) or SUBSURFACE ESTATE described and identified in Exhibit 1 attached hereto and made a part hereof, which are depicted on the plat attached as Exhibit 2; and

WHEREAS, the PARTIES desire to provide for exploration and development OPERATIONs on the SUBJECT LANDS and to define their respective rights and obligations with respect to the conduct of such activities;

NOW, THEREFORE, in consideration of the mutual agreements herein contained, it is agreed as follows:

ARTICLE 1.
DEFINITIONS

Definitions. Whenever the following "upper case" terms are used in this AGREEMENT, they shall have the meaning stated in this Article 1.

1.1. ACREAGE BASIS, when used to describe the basis of participation by the PARTIES within the SUBJECT LANDS, UNIT AREA, PARTICIPATING AREA, TRACT or other area designated pursuant to this AGREEMENT with regard to voting, EXPENDITURES, UNIT EXPENDITURES, PRODUCTION and UNITIZED SUBSTANCES, means participation by each such PARTY in the proportion that the surface acreage of its WORKING INTERESTs in such area bears to the total surface acreage of the WORKING INTERESTs of all such PARTIES therein. For the purposes of this definition, (i) the surface acreage of the WORKING INTEREST in a TRACT within the SUBJECT LANDS shall be the surface acreage of such TRACT as set forth in Exhibit 1, and (ii) if there are two (2) or more undivided WORKING INTERESTs in a TRACT, there shall be apportioned to each such WORKING INTEREST that proportion of the surface acreage of the TRACT that such WORKING INTEREST bears to the entire WORKING INTEREST in the TRACT.

1.2. AUTHORIZATION FOR EXPENDITURE (AFE) or AUTHORIZATION FOR COMMITMENT (AFC) means the written document which, when it receives the APPROVAL OF THE PARTIES, grants to OPERATOR the authority to commit or expend funds.

1.3. AFFILIATE means any corporation, company, limited liability company or partnership (including a limited partnership) or any other entity that directly or indirectly controls, is controlled by, or is under common control of a PARTY. For the purpose of this definition, control means the ownership, directly or indirectly, of fifty percent (50%) or more of the shares, voting rights or interest in a corporation, company, limited liability company or partnership (including a limited partnership) or any other entity.

1.4. AGENCY means the appropriate governmental State or Federal Agency for approval of units, PARTICIPATING AREAs and Plans of Development or Plans of Exploration.

1.5. APPROVAL OF THE PARTIES means an approval, authorization, or direction which receives the required percentage vote specified in Section 8.2 by the PARTIES entitled to vote on the proposal.

1.6. COMPLETE or COMPLETING means to perform all OPERATIONs reasonably necessary and incident to the completion of a well, commencing with the running and setting of the PRODUCTION pipe and, if productive, equipping through the wellhead connections.

1.7. COST means any and all costs and expenses incurred pursuant to this AGREEMENT and all other expenses that are herein made chargeable as costs, determined in accordance with the Accounting Procedure attached hereto as Exhibit 3.

1.8. DEEPEN means to perform all OPERATIONs reasonably necessary and incident to DRILLing a well below its original objective depth.

1.9. DEMOBILIZATION COSTS means the actual COSTs incurred pursuant to the drilling contract to rig down following final well OPERATIONs, including the COSTs of moving the drilling rig and any support EQUIPMENT from the last well DRILLed to its contractually designated demobilization location.

1.10. DEVELOPMENT WELL means a well that is both (i) DRILLed, DEEPENed or SIDETRACKed by the PARTIES pursuant to an approved Development Plan under this AGREEMENT to a projected bottomhole location within a PARTICIPATING AREA approved by the AGENCY, or an area for which a good faith application to establish a PARTICIPATING AREA has been made with the AGENCY and approval is pending, and (ii) for which the primary objective RESERVOIR is the same RESERVOIR for the PARTICIPATING AREA or pending PARTICIPATING AREA, or a shallower RESERVOIR.

1.11. DRILL means to perform all OPERATIONs reasonably necessary and incident to the drilling of a well to its objective, open hole testing and logging, but excluding COMPLETING OPERATIONs or OPERATIONs to have the well PLUGGED AND ABANDONED.

1.12. EFFECTIVE DATE means the effective date of this agreement as given in paragraph 1 of this AGREEMENT.

1.13. EQUIPMENT, or UNIT EQUIPMENT or UNIT AREA EQUIPMENT means all FACILITIES and equipment constructed, taken over or otherwise acquired for the benefit of WORKING INTEREST OWNERs for use in OPERATIONs or UNIT OPERATIONs.

1.14. EQUITY PROCEDURES means those specific techniques, methodologies, and equations to be used to determine TRACT PARTICIPATIONs for INTERIM DETERMINATIONs and FINAL DETERMINATIONs as set forth in Article 11.

1.15. EXPENDITURES or UNIT EXPENDITURES means all COSTs, expenses or indebtedness incurred by WORKING INTEREST OWNERs or OPERATOR pursuant to this AGREEMENT and the UNIT AGREEMENT for or on account of OPERATIONs or UNIT OPERATIONs.

1.16. EXPLORATORY WELL means any well other than a DEVELOPMENT WELL (but including the subsequent DEEPENing or SIDETRACKing of a DEVELOPMENT WELL to an objective below the base of the stratigraphic equivalent of the deepest horizon covered by the deepest applicable PARTICIPATING AREA), DRILLed, DEEPENed or SIDETRACKed pursuant to this AGREEMENT.

1.17. FACILITIES means any personal property or fixtures wherever located and whether on or off the UNIT AREA, beyond wellhead connections acquired pursuant to this AGREEMENT for the purpose of producing, handling, storing, treating, or transporting PRODUCTION or UNITIZED SUBSTANCES, including, but not limited to, on site personnel quarters and transportation systems, communications systems and oil spill response EQUIPMENT.

1.18. FINAL DETERMINATION means the final determination of TRACT PARTICIPATIONs as provided in Section 11.5.

1.19. INFLATION EQUIVALENT means interest at the monthly rate set forth in Exhibit 3.

1.20. INITIAL PARTICIPATIONS means the first determination of TRACT PARTICIPATIONs as provided in Section 11.2.

1.21. INTERIM DETERMINATION means the determination of TRACT PARTICIPATIONs as provided in Section 11.4.

1.22. JOINT ACCOUNT means the series of separate accounts established for the SUBJECT LANDS, the UNIT AREA, the respective PARTICIPATING AREAs and FACILITIES showing the EXPENDITURES and credits accruing because of OPERATIONs and which are to be shared by the respective WORKING INTEREST OWNERs.

1.23. LEASE BURDEN means the royalty, net profits or other interest reserved to the lessor in any oil and gas lease, or an overriding royalty, PRODUCTION payment, or other similar burden created prior to the EFFECTIVE DATE of this AGREEMENT and described in Exhibit 1, but does not include a carried WORKING INTEREST, a non-participating royalty interest, any interest payable out of profits to someone other than the lessor, or any interest created after the EFFECTIVE DATE of this AGREEMENT.

1.24. MOBILIZATION COST means the actual COSTs incurred pursuant to the drilling contract to prepare a drilling rig and associated support EQUIPMENT for DRILLing OPERATIONs, including the COST of moving the drilling rig and support EQUIPMENT from its initial location to the first well location and rigging up for DRILLing OPERATIONs.

1.25. NON-CONSENT OPERATION means any activity conducted under this AGREEMENT in which fewer than all of the WORKING INTEREST OWNERs elect to participate.

1.26. NON-DRILLING PARTY or NON-PARTICIPATING PARTY means the WORKING INTEREST OWNER who elected or is deemed to have elected not to participate in the COSTs incurred in DRILLing, DEEPENing, testing, PLUGGING BACK, COMPLETING, SIDETRACKing, or REWORKing of an EXPLORATORY WELL or an OPERATION, including but not limited to construction of FACILITIES or acquisition of EQUIPMENT in accordance with this AGREEMENT.

1.27. NON-OPERATOR means any PARTY to this AGREEMENT owning a WORKING INTEREST in the SUBJECT LANDS and not acting as OPERATOR.

1.28. OPERATION or UNIT OPERATION means all operations conducted pursuant to this AGREEMENT or the UNIT AGREEMENT.

1.29. OPERATOR means COOK INLET ENERGY, LLC or its duly appointed successor, when acting as operator under this AGREEMENT, or means the WORKING INTEREST OWNER designated or selected pursuant to this AGREEMENT and/or the UNIT AGREEMENT and approved by the AGENCY to conduct UNIT OPERATIONs when acting in that capacity and not in the capacity of a WORKING INTEREST OWNER.

1.30. OUTSIDE SUBSTANCES means any oil, gas, other hydrocarbons or non-hydrocarbon substances purchased or otherwise obtained from outside the UNIT AREA by OPERATOR and, with the approval of the AGENCY, injected into a RESERVOIR in the UNIT AREA.

1.31. a) PARTICIPATING AREA means that RESERVOIR that is part of the SUBJECT LANDS that is reasonably proven by DRILLing and completion of producible wells, geological and geophysical information, and engineering data to be capable of producing hydrocarbons in PAYING QUANTITIES, and is approved as such by the AGENCY.

b) PARTICIPATING AREAs means more than one PARTICIPATING AREA.

1.32. PARTICIPATING INTEREST means a PARTY's percentage of participation in the COST, risk, and rewards of an OPERATION conducted pursuant to this AGREEMENT and is expressed as a percentage. When all PARTIES participate in an EXPLORATORY WELL, a DRILLING PARTY's participating interest in such OPERATION shall be its WORKING INTEREST within the SUBJECT LANDS. When fewer than all PARTIES participate, a DRILLING PARTY's participating interest will also include its share, if any, of the participating interest

determined pursuant to Section 15.3 hereof, which would have been allocated to each NON-DRILLING PARTY had the NON-DRILLING PARTY participated in the OPERATION. If any PARTY has previously relinquished an interest pursuant to Article 16 as to any depth in any portion of the SUBJECT LANDS, a DRILLING PARTY's participating interest shall be calculated by using the WORKING INTEREST of the PARTIES in the deepest objective formation proposed to be penetrated by the well. In the event the well is proposed to be tested by a cased PRODUCTION test pursuant to Section 15.5, the participating interest of the DRILLING PARTIES in such OPERATION shall be based on the WORKING INTEREST of such DRILLING PARTIES at the deepest depth to which the cased PRODUCTION test is proposed.

1.33. PARTICIPATING PARTY or DRILLING PARTY means a WORKING INTEREST OWNER obligated to bear the COSTs incurred in an OPERATION, including but not limited to construction of FACILITIES, acquisition of EQUIPMENT, DRILLing, DEEPENing, testing, PLUGGING BACK, COMPLETING, SIDETRACKing or REWORKing of an EXPLORATORY WELL or DEVELOPMENT WELLs as of the date the subject OPERATION receives the APPROVAL OF THE PARTIES .

1.34. PARTY or PARTIES means a signatory party to this AGREEMENT, including the party acting as OPERATOR.

1.35. PAYING QUANTITIES as used herein means the PRODUCTION of oil and/or gas in quantities sufficient to yield a return in excess of operating COSTs.

1.36. PLUGGING BACK means to perform all OPERATIONs reasonably necessary and incident to plugging back a well to a depth above its original objective depth or a subsequently approved deeper objective depth, testing, logging, and including COMPLETING.

1.37. PLUGGED AND ABANDONED means to plug and abandon a well pursuant to applicable rules and regulations of the State of Alaska. This includes the rehabilitation and restoration of the surface to original condition or to the satisfaction of the appropriate governmental AGENCY.

1.38. PRODUCTION and/or UNITIZED SUBSTANCES means all oil, gas, gaseous and liquid hydrocarbons, condensate, distillate, sulfur contained in gas, and all associated and constituent liquid or liquefiable hydrocarbons which may be produced and saved or sold from the SUBJECT LANDS or UNIT AREA.

1.39. PROPOSAL TO DEVELOP means a proposal to develop as set forth in Article 17 of this AGREEMENT.

1.40. REQUIRED WELL or REQUIRED OPERATION means a well required to be DRILLed or an OPERATION required to be conducted in the UNIT AREA by the AGENCY.

1.41. RESERVOIR means an underground porous, permeable medium containing an accumulation of oil or gas or both. Each zone of a general structure containing such an accumulation that is separated from any other accumulation of oil or gas or both and is not in pressure communication within the hydrocarbon column with any other accumulation in the structure is a separate reservoir.

1.42. REWORK means to perform OPERATIONs in a well as to the RESERVOIR then open to PRODUCTION in an attempt to restore, maintain or enhance PRODUCTION therefrom.

1.43. SALVAGE VALUE means the value of the materials and EQUIPMENT in or appurtenant to a well and the joint property determined in accordance with Exhibit 3, less the reasonably estimated COSTs of salvaging the same and plugging the well and the estimated COST of rehabilitation and restoration of the SUBJECT LANDS to original condition or to the satisfaction of the appropriate governmental AGENCY.

1.44. SIDETRACK means to DRILL a new well using a part, but not all, of an existing wellbore to DRILL a hole to a different objective formation or to any point in the original objective formation more than five hundred feet (500) feet in any direction from the intersection of the existing wellbore with the original objective formation.

1.45. SUBJECT LANDS mean the oil and gas lease(s) or SUBSURFACE ESTATE described and identified in Exhibit 1 and depicted on the plat attached as Exhibit 2.

1.46. SUBSURFACE ESTATE means the right to explore, develop and produce the SUBJECT LANDS by virtue of fee simple ownership of the mineral estate and which are described on Exhibit 1.

1.47. TAX PARTNERSHIP means the tax partnership that is provided for in Exhibit 5.

1.48. THIRD PARTY or THIRD PARTIES means any party who is not a signatory to this AGREEMENT excepting any and all AFFILIATEs.

1.49. TRACT means each separate parcel of land which is described on Exhibit 1 and given a TRACT number, which will be a unique combination of numbers and/or letters.

1.50. TRACT PARTICIPATION means the percentage assigned to a TRACT, or portion thereof, lying within a PARTICIPATING AREA for the purpose of allocating to such TRACT, or portion thereof, UNIT EXPENDITURES associated with that PARTICIPATING AREA and allocating UNITIZED SUBSTANCES produced from such PARTICIPATING AREA. Such TRACT participations shall be determined in accordance with Article 11.

1.51. UNIT means the Otter Unit.

1.52. UNIT AREA means the area within the UNIT, as approved by the AGENCY, which includes all or a portion of the SUBJECT LANDS and is subject to the UNIT AGREEMENT.

1.53. WORKING INTEREST means the operating interest under an oil and gas lease or the SUBSURFACE ESTATE under which the owner of that interest has the right to DRILL, develop and produce oil and/or gas and associated substances. For purposes of this AGREEMENT, the working interest in a lease, SUBSURFACE ESTATE, SUBJECT LANDS, UNIT AREA, TRACT or PARTICIPATING AREA is expressed as a percentage and is determined by dividing a PARTY's net surface acreage in the lease, SUBSURFACE ESTATE, SUBJECT LANDS, UNIT AREA, TRACT or PARTICIPATING AREA by the total net surface acreage therein.

1.54. WORKING INTEREST OWNER means a PARTY to this AGREEMENT that owns a WORKING INTEREST in the lease, SUBSURFACE ESTATE, SUBJECT LANDS, UNIT AREA, TRACT or PARTICIPATING AREA, as appropriate.

ARTICLE 2.
EXHIBITS

2.1. Exhibits. The following Exhibits are incorporated herein by reference:

Exhibit 1	OIL AND GAS LEASES AND SUBSURFACE ESTATE SUBJECT TO THE AGREEMENT
Exhibit 2	PLAT OF SUBJECT LANDS, UNIT AREA, AND/OR INITIAL UNIT BOUNDARY
Exhibit 3	ACCOUNTING PROCEDURE
Exhibit 4	EQUAL EMPLOYMENT OPPORTUNITY
Exhibit 5	TAX PARTNERSHIP AGREEMENT
Exhibit 6	ARBITRATION AGREEMENT
Exhibit 7	MEMORANDUM OF UNIT OPERATING AGREEMENT AND FINANCING STATEMENT
Exhibit 8	EQUITY PROCEDURES

2.2. Priority. In the event of a conflict or inconsistency between the terms of this AGREEMENT and any Exhibit attached hereto, except Exhibit 5 and Exhibit 7, the terms of this AGREEMENT shall govern and control.

ARTICLE 3.
SCOPE OF AGREEMENT, COMMITMENT OF INTEREST, APPORTIONMENT OF COSTS, AND OWNERSHIP OF PRODUCTION AND PROPERTY

3.1. Scope of Agreement. This AGREEMENT is intended to govern any and all OPERATIONs by the PARTIES which are part of or necessary for exploring and developing the SUBJECT LANDS.

3.2. Commitment of Interests. Each PARTY hereby subjects and commits to this AGREEMENT all of its WORKING INTERESTs in the SUBJECT LANDS. Any WORKING INTEREST in the SUBJECT LANDS which is acquired by a PARTY subsequent to the EFFECTIVE DATE of this AGREEMENT shall also be deemed committed and subject to this AGREEMENT.

3.3. Apportionment and Ownership. Except as otherwise stated in this AGREEMENT, the apportionment of COSTs and the ownership of PRODUCTION and property in any OPERATION conducted hereunder shall be as follows:

a. All COSTs and liabilities incurred by OPERATOR in the conduct of each OPERATION under this AGREEMENT shall be borne by the PARTIES in proportion to their respective PARTICIPATING INTERESTs.

b. All PRODUCTION from a well(s), subject to any LEASE BURDENs and to the relinquishment, reversion, and other provisions hereof, shall be owned by the PARTIES in proportion to their respective PARTICIPATING INTERESTs for such well(s).

c. All materials, EQUIPMENT, FACILITIES and other property, whether real or personal, acquired by OPERATOR, the COST of which is chargeable as COSTs hereunder, shall be owned by the PARTIES in proportion to their respective PARTICIPATING INTERESTs in the OPERATION for which such materials, EQUIPMENT, or other property was acquired.

ARTICLE 4.
MINIMUM ROYALTIES, DELAY RENTALS, SHUT-IN WELL PAYMENTS, AND LEASE BURDENS

4.1. Payment of Minimum Royalties, Delay Rentals and Shut-in Well Payments. OPERATOR shall pay all delay rentals, minimum royalty, shut-in royalty and shut-in well payments that may become due and payable on the SUBJECT LANDS and shall charge same to the PARTIES in proportion to their respective WORKING INTERESTs therein.

4.2. Failure to Make Proper Payment. In the absence of gross negligence or willful misconduct, OPERATOR shall not be liable in damages to any other PARTY for the failure to make any payment required by Section 4.1.

4.3. Lease Burdens and Taxes. Provided and to the extent OPERATOR is selling NON-OPERATOR's share of the PRODUCTION, OPERATOR shall make the payment of the LEASE BURDEN(s), which is attributable to such PARTY's respective share of PRODUCTION and OPERATOR shall pay or cause to be paid all taxes levied on or measured by PRODUCTION which are attributable to each PARTY's share of PRODUCTION. Otherwise, each PARTY shall be responsible for payment and delivery of the LEASE BURDEN(s) and taxes, which is attributable to such PARTY's respective share of PRODUCTION. During any time in which DRILLING PARTIES are entitled to receive a NON-DRILLING PARTY's share of PRODUCTION, the DRILLING PARTIES shall bear the LEASE BURDENs due with respect to such NON-DRILLING PARTY's share of PRODUCTION and shall hold the Non-DRILLING PARTIES harmless from liability in connection therewith. In making such payments or deliveries, no PARTY shall be liable for a standard of performance in excess of a good faith effort to pay or deliver same prior to the due date.

4.4. Other Burdens. Any burden which is not designated on Exhibit 1, attached hereto, all non-participating royalty interests, all carried WORKING INTERESTs, and all other interests payable out of profits to someone other than the lessor, shall be borne by the PARTY or PARTIES whose WORKING INTEREST is burdened thereby. Any

assignments made pursuant to Article 16, Article 17 and/or Article 27 hereunder shall be free and clear of any such burdens, unless such burden is designated on Exhibit 1.

ARTICLE 5.
OPERATOR'S POWERS AND RIGHTS

5.1. In General. Subject to the provisions of this AGREEMENT, OPERATOR shall direct and have control of all OPERATIONs conducted hereunder and shall have exclusive custody of all materials, EQUIPMENT and other property used in connection with the conduct of OPERATIONs hereunder.

5.2. Resignation of Operator or Transfer of All or a Majority of Its Interest. OPERATOR may resign from such position at any time after having given ninety (90) days prior written notice to NON-OPERATORs. Should OPERATOR transfer such portion of its WORKING INTEREST such that it retains less than twenty five percent (25%) of the total WORKING INTEREST in the SUBJECT LANDS, it shall, upon consummation of such transfer, give written notice thereof to the NON-OPERATORs. After having given such notice, OPERATOR shall, if it so desires, or if requested by a vote of fifty one percent (51%) or more of the NON-OPERATOR's WORKING INTERESTs after excluding OPERATOR's WORKING INTEREST, resign its position as OPERATOR, subject to the provisions of Section 5.5 hereof. OPERATOR shall not require as a condition of transfer of such WORKING INTEREST that the transferee vote not to remove the OPERATOR or not vote at all. A failure to vote to remove the OPERATOR and to elect a successor OPERATOR shall be deemed a vote to retain OPERATOR. Such resignation shall become effective at 7:00 a.m. in the SUBJECT LANDS on the first day of the month following a period of ninety (90) days after receipt of said notice of resignation or request to resign, unless a successor OPERATOR has assumed the duties of OPERATOR prior to that date.

5.3. Automatic Termination. If OPERATOR (i) dissolves, liquidates or terminates its legal existence other than through merger or reorganization; (ii) becomes insolvent, bankrupt or is placed in receivership; or (iii) is ordered by governmental authority to cease acting as OPERATOR, OPERATOR's appointment will terminate upon appointment of a successor.

5.4. Removal of Operator. In the event OPERATOR is in material default of or breaches a material provision of this AGREEMENT (as determined by a vote of seventy-five percent (75%) or more in WORKING INTERESTs among the NON-OPERATORs after excluding OPERATOR's WORKING INTEREST) and fails to cure same within sixty (60) days (three hundred sixty five (365) days if actual OPERATIONs on the SUBJECT LANDS are required) after written notification by NON-OPERATORs of such breach, OPERATOR may be removed by the affirmative vote of NON-OPERATORs having seventy-five percent (75%) or more of the WORKING INTERESTs remaining after excluding OPERATOR's WORKING INTEREST.

5.5. Transfer of Responsibilities.

a. Upon the effective date of such resignation or removal, OPERATOR shall deliver to, or relinquish custody in favor of, the successor OPERATOR, all funds relating to the JOINT ACCOUNT, all EQUIPMENT, all PRODUCTION held for the benefit of the JOINT ACCOUNT, and all books, records, accounts and inventories relating to OPERATIONs other than those books, records, accounts and inventories maintained by OPERATOR as a WORKING INTEREST OWNER. The outgoing OPERATOR shall further use its commercially reasonable efforts to transfer to the successor OPERATOR, effective as of the effective date of such resignation or removal, its rights as OPERATOR under all contracts exclusively relating to the OPERATIONs and the successor OPERATOR shall assume all OPERATIONs of OPERATOR thereunder. It is acknowledged that a failure to comply with this provision could cause irreparable injury to the WORKING INTEREST OWNERs, and thereby justify injunctive relief.

b. As soon as practicable after the effective date of such resignation or removal, the PARTIES shall audit the JOINT ACCOUNT and conduct an inventory of all EQUIPMENT and all PRODUCTION and such inventory shall be used in the return of and the accounting for the said EQUIPMENT and PRODUCTION by OPERATOR which has resigned or has been removed for the purposes of the transfer of responsibilities under this Article. All COSTs and expenses incurred in connection with such audit and inventory shall be for the JOINT ACCOUNT.

5.6. Non-consent Operations. With respect to NON-CONSENT OPERATIONS where OPERATOR does not participate, the PARTICIPATING PARTIES shall have the right to have OPERATOR conduct such NON-CONSENT OPERATIONS under the terms of this AGREEMENT at the sole COST, risk and expense of, but subject to supervision by, the PARTICIPATING PARTIES; provided that OPERATOR shall promptly submit to the PARTICIPATING PARTIES an estimate of the COSTs of the proposed NON-CONSENT OPERATIONS; and, provided further that OPERATOR shall not be required to proceed with such NON-CONSENT OPERATIONS unless and until the COST thereof has been advanced to it by the PARTICIPATING PARTIES in accordance with Exhibit 3 hereof to the end that OPERATOR need not expend any of its own funds for such NON-CONSENT OPERATIONS. If the PARTICIPATING PARTIES elect, they shall have the right to designate, by a fifty-one percent (51%) vote of the PARTICIPATING INTEREST of the PARTICIPATING PARTIES in the OPERATION, a PARTICIPATING PARTY or a THIRD PARTY as a sub-operator for the purpose of conducting such NON-CONSENT OPERATION, provided that the terms and conditions of the rig agreement and other necessary agreements are assignable, and provided further that the PARTICIPATING PARTIES designation of sub-operator is subject to OPERATOR approval, which shall not be unreasonably withheld.

5.7. Designation of Successor Operator. Should OPERATOR resign pursuant to Section 5.2, be terminated pursuant to Section 5.3, or be removed pursuant to Section 5.4, then within a period of ninety (90) days after such resignation, termination or removal the PARTIES shall, by an affirmative vote of a combined WORKING INTERESTs of fifty-one percent (51%) or more in the SUBJECT LANDS, excluding the vote of the retiring OPERATOR if it fails to vote or votes to succeed itself, select a successor OPERATOR. The successor OPERATOR must own a minimum of twenty-five percent (25%) of the WORKING INTEREST in the SUBJECT LANDS except that in the event no WORKING INTEREST OWNER owns twenty-five percent (25%) or more in the SUBJECT LANDS then the successor OPERATOR shall be that WORKING INTEREST OWNER selected as provided in this AGREEMENT. In the event a majority vote or votes cannot be obtained, the successor OPERATOR shall be the PARTY receiving the highest WORKING INTEREST votes excluding the vote of the retiring OPERATOR if it fails to vote or votes to succeed itself. The retiring OPERATOR shall continue to serve as OPERATOR until its successor has taken over the OPERATIONs, provided that the retiring OPERATOR shall not be required to continue as OPERATOR for longer than said ninety (90) day period. The retiring OPERATOR, after the effective date of resignation or removal shall be bound by the terms hereof as a NON-OPERATOR, provided that the retiring OPERATOR retains any WORKING INTEREST in the SUBJECT LANDS. Notwithstanding anything herein to the contrary, if this AGREEMENT involves only two PARTIES, then upon the happening of one of the events specified in Sections 5.2, 5.3 or 5.4, the NON-OPERATOR shall have the option of either becoming OPERATOR or allowing OPERATOR to continue in that position,

5.8. Employees. Subject to this AGREEMENT, the number of employees to be used in OPERATIONs hereunder and their selection, as well as their hours of labor and compensation, shall be determined by OPERATOR. All such employees shall be the employees of OPERATOR. OPERATOR shall employ such employees, agents and contractors as are reasonably necessary to conduct OPERATIONs. NON-OPERATORs shall have the right to furnish to OPERATOR one (1) of NON-OPERATOR's Technical Employees (as defined in Exhibit 3 attached hereto) with specific job skills and knowledge as may benefit the UNIT OPERATIONs. OPERATOR may decline to accept or may later reject any NON-OPERATOR's employee for any reason. All COSTs associated with NON-OPERATOR's contribution of any such of its employees shall be charged to the JOINT ACCOUNT provided that such COSTs would otherwise be chargeable as COSTs hereunder.

5.9. Non-Liability. OPERATOR shall not be liable to NON-OPERATORs for losses sustained or liabilities incurred in the conduct of its OPERATIONs hereunder, or for anything done or omitted to be done, except as may result from OPERATOR's gross negligence or willful misconduct.

5.10. Advances. Subject to Section 9.3 and Section 18.6, OPERATOR shall have the right to require each DRILLING PARTY to advance its respective share of estimated cash outlays pursuant to Exhibit 3. Each such statement and invoice for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month, unless otherwise set forth in Exhibit 3. Each PARTY shall pay to OPERATOR its proportionate share of such estimate within thirty (30) days after such estimate and invoice is received. If any PARTY fails to pay its share of said estimate within said time, the amount due shall bear interest as provided in Exhibit 3 until paid. Proper adjustment shall be made monthly between advances and actual expenses to the end that each PARTY shall bear and pay its proportionate share of actual expenses incurred, and no more.

5.11. Lien and Security Interests. In addition to any other security rights and remedies provided by law, and as security for the payment of all sums due OPERATOR from a NON-OPERATOR, OPERATOR is given a first and prior lien on such NON-OPERATOR's WORKING INTEREST, and a first and prior security interest in such NON-OPERATOR's Other Collateral, as defined below, said lien and security interest being conveyed and granted to secure payment of said NON-OPERATOR's share of Unit Expenditure (including any undistributed payments by OPERATOR under this AGREEMENT of any rentals, minimum royalties or royalties on behalf of any WORKING INTEREST OWNER), whether incurred heretofore or hereafter. In the event of default in prompt payment or discharge of its obligations under this AGREEMENT, the defaulting NON-OPERATOR shall pay to the OPERATOR, as an additional obligation secured by this Subsection, interest at the rate specified in Exhibit 3, attached hereto, plus attorneys fees and all other legal expenses and court COSTs incurred or paid by OPERATOR in exercising and enforcing its rights and remedies under this Subsection. Each NON-OPERATOR shall have like liens and security rights against OPERATOR's WORKING INTEREST and Other Collateral. Each PARTY agrees to execute instrument in the form set out in Exhibit 7 (Memorandum of Unit Operating Agreement and Financing Statement).

"Other Collateral" that is subject to the security interests specified in this Subsection shall include: (a) such WORKING INTEREST OWNER's share of all UNITIZED SUBSTANCES when extracted; (b) such WORKING INTEREST OWNER's interest in all EQUIPMENT, whether acquired heretofore or hereafter; (c) such WORKING INTEREST OWNER's interest in all other personal property that is used for UNIT OPERATIONs and is now or hereafter in OPERATOR's possession or control, and (d) all proceeds from sale or other disposition of all or any part of said share of UNITIZED SUBSTANCES or said interest in EQUIPMENT or other personal property.

In the event NON-OPERATOR fails to pay, within the time limit for payment thereof, any sum owed by it for COSTs, OPERATOR is authorized, at its election and without prejudice to other remedies, to collect from any purchaser of such delinquent PARTY's share of the PRODUCTION the amount owing. The PARTY collecting such amounts shall be responsible for accounting to the owner of the LEASE BURDEN(s) designated on Exhibit 1 and to the lessor for the lessor's reserved royalty and net profits attributable to the amount collected. Each purchaser of PRODUCTION is authorized to rely upon OPERATOR's statement as to the amount owed by such delinquent PARTY. All delinquent amounts owed by a NON-OPERATOR shall bear interest calculated in accordance with Exhibit 3. Upon the request of any PARTY, OPERATOR shall prepare, and each PARTY shall execute and deliver to OPERATOR (or OPERATOR shall execute and deliver to the NON-OPERATORs as the case may be), a recording supplement of this AGREEMENT and such financing statements as are necessary to perfect and maintain the lien and security interests provided in this Section, and each PARTY shall also inform OPERATOR where it keeps its records related to the security and where its chief place of business is located. OPERATOR shall promptly record such recording supplements and file such financing statements in each recording district in which the SUBJECT LANDS or any other collateral identified above is located and shall file, or record if appropriate, a financing statement in every filing or recording office OPERATOR believes appropriate to perfect and maintain the lien and security interest evidenced thereby. Thereafter, each PARTY shall execute, acknowledge and deliver, for recording or filing in like manner, such additional instruments as are necessary or appropriate to implement, perfect and maintain the lien and security interests provided in this Section.

5.12. Default and Unpaid Charges. If any PARTY does not pay its share of the COSTs and other charges, including advances, when due, OPERATOR may give such PARTY notice that unless payment is made within fifteen (15) days of receipt of said notice, such PARTY shall be in default. Any PARTY in default shall have no further access to the SUBJECT LANDS, maps, records, data, interpretations, or other information obtained in connection with any OPERATIONs hereunder. A PARTY in default shall not be entitled to vote on any matter until such time as said PARTY's payments due hereunder are current. When a PARTY is in default, the voting interest of each non-defaulting PARTY shall be adjusted to be in the proportion that its voting interest bears to the total non-defaulting voting interest. As to any EXPLORATORY WELL or PROPOSAL TO DEVELOP (i) in which OPERATIONs were conducted under an affirmative election to participate by the PARTY in default or (ii) as such are approved after a PARTY is in default, then OPERATOR shall have the right but not the obligation to elect by written notice delivered to the defaulting PARTY to deem such defaulting PARTY to be a NON-DRILLING PARTY (in the case of an EXPLORATORY WELL) or a Non-Development PARTY (in the case of a PROPOSAL TO DEVELOP) and in addition to all and any other remedies which the PARTY in default may owe to any other PARTIES, the PARTY in default shall be deemed to have relinquished to the non-defaulting PARTY or PARTIES all of the defaulting PARTY's PARTICIPATING INTERESTs in the results and PRODUCTION of such OPERATIONs to the same effect and extent as if the PARTY in

default elected not to participate in such OPERATION. If any PARTY fails to pay the charges due hereunder within sixty (60) days after rendition of OPERATOR's statement, the other PARTY or PARTIES with PARTICIPATING INTERESTs in the relevant OPERATIONs shall, upon OPERATOR's request, pay the unpaid amount in proportion to their PARTICIPATING INTERESTs in such OPERATIONs calculated after excluding the PARTICIPATING INTEREST of the PARTY in default. If such other PARTY fails to pay OPERATOR after such request, the PARTY shall also be a defaulting PARTY. Each PARTY so paying its share of the unpaid amount shall be subrogated to OPERATOR's security rights against the defaulting PARTY to the extent of such payment.

5.13. Contracts. All wells DRILLed or OPERATIONs conducted on the SUBJECT LANDS for which the estimated COST exceeds TWO HUNDRED THOUSAND DOLLARS ($200,000) shall be DRILLed or conducted on a competitive contract basis, or negotiated contract basis. OPERATOR may employ its own tools and EQUIPMENT in the conduct of OPERATIONs under this AGREEMENT. OPERATOR's charges for the use of its own tools and EQUIPMENT shall not exceed the usual rates prevailing in the area; the rate of charge shall be agreed upon by APPROVAL OF THE PARTIES participating in such OPERATIONs in writing before such OPERATIONs are commenced and such OPERATIONs shall be performed by OPERATOR under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. Upon request NON-OPERATORs shall be provided a copy of the contracts and any material revisions. OPERATOR shall use its commercially reasonable efforts to make all such contracts assignable.

5.14. Emergencies. In case of a blowout, explosion, fire, flood, storm, ice floe, catastrophe, or other sudden emergency, OPERATOR shall take such steps and incur such EXPENDITURES as are necessary to deal with the emergency to safeguard life and property and to prevent pollution, but OPERATOR shall, as promptly as possible, report the emergency and the estimated expense to the WORKING INTEREST OWNERs.

5.15. Operator Affiliates and Equipment. OPERATOR may employ an AFFILIATE or AFFILIATE's own tools and EQUIPMENT in the conduct of OPERATIONs under this AGREEMENT, but OPERATOR's charges therefore shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the PARTIES in writing before DRILLing OPERATIONs are commenced, and such work shall be performed by OPERATOR under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by AFFILIATEs or related PARTIES of OPERATOR shall be performed or supplied at competitive rates, pursuant to written agreement and in accordance with customs and standards prevailing in the industry in the area.

5.16. Claims. OPERATOR shall notify NON-OPERATORs in writing of all actions, claims, suits, and demands by any person or persons arising in connection with its OPERATIONs hereunder. OPERATOR may settle any such single uninsured claim or demand when the total expenditure for final settlement and full release does not exceed TWO HUNDRED THOUSAND DOLLARS ($200,000). OPERATOR shall not settle any uninsured claim in excess of such amount without written approval of all PARTICIPATING PARTIES in such OPERATIONs. All COSTs and expenses of defending, handling, settling, or otherwise discharging such claim or suit shall be at the joint expense of the PARTICIPATING PARTIES in the OPERATION from which the claim or suit arises. If a claim is made against any NON-OPERATOR or if any NON-OPERATOR is sued on account of any matter arising from OPERATIONs hereunder over which such PARTY has no control because of the rights given OPERATOR by this AGREEMENT, such PARTY shall immediately notify OPERATOR and all other PARTICIPATING PARTIES, and the claim or suit shall be handled by OPERATOR as a claim or suit arising in connection with OPERATIONs hereunder.

5.17. Use of Outside Attorneys. OPERATOR shall give prompt notice to the PARTIES of the retention of any outside attorneys to represent the affected WORKING INTEREST OWNERs. Any WORKING INTEREST OWNER can be separately represented, at its sole expense, if it so elects. The retention of outside counsel shall be in accordance with Exhibit 3 to this AGREEMENT.

5.18. Surplus Material and Equipment. Materials and EQUIPMENT acquired hereunder may be classified as surplus by OPERATOR when deemed no longer needed in present or foreseeable OPERATIONs. OPERATOR shall determine the value and COST of disposal of such materials in accordance with Exhibit 3. If the material is classified as junk or if the value of the EQUIPMENT utilized for a project, less COST of disposal, is less than or equal to TWO HUNDRED THOUSAND DOLLARS ($200,000), the OPERATOR will dispose of such surplus material in a good faith effort to achieve the maximum benefit for the PARTIES owning such material and EQUIPMENT; provided,

however, that if OPERATOR proposes to sell or transfer such material or EQUIPMENT to itself, OPERATOR shall use the same procedure as that applicable to a disposition of material or EQUIPMENT valued in excess of TWO HUNDRED THOUSAND DOLLARS ($200,000). If the value of the material or EQUIPMENT utilized for a project, less COST of disposal of such surplus material or EQUIPMENT, is greater than TWO HUNDRED THOUSAND DOLLARS ($200,000), OPERATOR shall give written notice thereof to the PARTIES owning such material or EQUIPMENT. OPERATOR shall thereafter dispose of the surplus material or EQUIPMENT in accordance with the method of disposal agreed upon by the PARTIES owning such materials or EQUIPMENT pursuant to a vote prescribed in Article 8 of this AGREEMENT. Any proceeds from the sale or transfer of all surplus material and EQUIPMENT shall be promptly credited to each PARTY in proportion to their ownership of such material.

5.19. Option to Operate Exploratory and Appraisal Wells. OPERATOR may, at its sole option, serve as OPERATOR of exploratory and appraisal wells within the UNIT, and shall serve as surface and subsurface OPERATOR of any DEVELOPMENT WELLs and FACILITIES within the UNIT. If OPERATOR elects not to serve as OPERATOR of an exploratory or appraisal well within the UNIT, the DRILLING PARTIES shall obtain an OPERATOR for such exploratory or appraisal well. OPERATOR shall consent to the DRILLING PARTIES' choice of OPERATOR provided that the proposed OPERATOR utilizes health, safety and environmental standards and controls equivalent to those employed by OPERATOR, has sufficient spill response capability, and demonstrates appropriate financial responsibility and bonding. Such consent shall not be unreasonably denied by OPERATOR.

ARTICLE 6.
OPERATOR'S DUTIES

6.1 Specific Duties. In the conduct of OPERATIONs hereunder, OPERATOR shall:

a. Workmanlike Conduct. Conduct all OPERATIONs in a good and workmanlike manner as would a prudent OPERATOR under the same or similar circumstances. OPERATOR shall use OPERATOR's reasonable efforts to control COSTs and enhance PRODUCTION.

b. Consultation with Non-Operators. Consult freely with NON-OPERATORs concerning OPERATIONs hereunder and keep them advised of all significant matters arising hereunder.

c. Compliance with Laws and Agreements. Comply with all terms of the oil and gas leases or agreements under which each WORKING INTEREST is held and with all applicable federal, state and local laws and regulations, except to the extent such compliance is delegated to each lessee, as provided in Article 4.

d. Payment of Costs. Pay all COSTs incurred in OPERATIONs hereunder promptly as and when due and payable and make proper charges to the PARTIES for their proportionate shares. All charges and accounting between OPERATOR and NON-OPERATORs shall be governed by the Accounting Procedure, attached hereto as Exhibit 3.

e. Records. Keep correct books, accounts and records with respect to all OPERATIONs hereunder, showing expenses incurred, charges and credits made and received. OPERATOR shall provide NON-OPERATORs with a monthly report of estimated COSTs, both incurred and projected. During DRILLing OPERATIONs, OPERATOR shall (1) submit to each DRILLING PARTY such DRILLing COST information as is kept in the normal course of OPERATOR's business, and (2) use commercially reasonable efforts to keep its COST records for each well on a current weekly basis so that it will be able to predict with reasonable accuracy at any given time whether or not the actual COST of the well will exceed the estimated total COST previously submitted by OPERATOR.

f. Access to Subject Lands. Except as otherwise provided herein, and provided such access does not unreasonably interfere with OPERATIONs, provide each NON-OPERATOR free access, at that NON-OPERATOR's sole risk and expense, to the SUBJECT LANDS and, when a NON-OPERATOR is a DRILLING PARTY, provide free access at any and all times to inspect and observe OPERATIONs of every kind and character being conducted hereunder, including but not limited to the right to be present at and witness any test, logging or coring conducted hereunder, it being understood that OPERATOR will use its commercially reasonable efforts to notify DRILLING PARTIES of the pendency of any such activities at least seventy-two (72) hours (exclusive of Saturday, Sunday, and federal holidays) in advance. Each NON-OPERATOR agrees to hold OPERATOR harmless from and to indemnify

OPERATOR against any and all loss or liability resulting from or arising out of injuries to the NON-OPERATOR's personal property, or injuries to or death of its employees, guests or contractors not caused by or resulting from OPERATOR's gross negligence or willful misconduct.

g. Access to Information. Notwithstanding any other provisions of this AGREEMENT but subject to Section 5.12 herein, provide to the PARTICIPATING PARTIES:

(1) The right to inspect and to receive copies in a timely manner of all available information of OPERATOR acquired by Expenditure of the PARTICIPATING PARTIES in the SUBJECT LANDS and field disposition of PRODUCTION, including but not limited to:

(A) Copies of all logs or surveys;
(B) Daily drilling progress reports;
(C) Copies of all drill stem test and core analysis reports;
(D) Copies of plugging reports;
(E) Access to and copies upon request of the geological and geophysical maps and reports;
(F) Subject to the confidentiality provisions of Article 25, copies of the final geophysical data, seismic sections and shot point location maps;
(G) Access to and copies upon request of engineering studies, development schedules and monthly progress reports on development projects, and access to core samples and cuttings;
(H) Field and well performance reports, including RESERVOIR studies, pressure surveys, and fluid analysis;
(I) Access to and copies of all substantive reports relating to OPERATIONs furnished by OPERATOR to governmental agencies, except magnetic tapes which shall be stored by OPERATOR and made available for inspection and/or copying at the sole expense of the PARTICIPATING PARTIES requesting same;
(J) Subject to Article 25, such additional information for PARTICIPATING PARTIES as they or any of them may request, provided that the requesting PARTY or PARTIES pay the COSTs of preparation of such information; and further provided that only PARTICIPATING PARTIES who pay such COSTs shall receive such additional information.

(2) OPERATOR shall give PARTICIPATING PARTIES access at all reasonable times to all other data acquired in the conduct of OPERATIONs. Any PARTICIPATING PARTY may make copies of such other data at its sole expense.

(3) Except as provided in Subsection 11.4.e and 11.5.f, a NON-DRILLING PARTY shall have no rights at any time to well information other than disposition of PRODUCTION for budgeting purposes.

h. Hearings and Litigation. Provide each NON-OPERATOR, in a timely manner, notice of any litigation or hearing that affects the SUBJECT LANDS or any OPERATIONs thereon as to which it is a DRILLING PARTY, and NON-OPERATOR shall have the right at all times to consult with OPERATOR in the conduct of any litigation, as well as the right to appear on its own behalf, and at its own expense, in all such trials or hearings.

ARTICLE 7.
TITLE

7.1. Loss of Title. Should any WORKING INTEREST in the SUBJECT LANDS be lost in whole or part through failure of title, the PARTY contributing the affected WORKING INTEREST to this AGREEMENT shall have ninety (90) days from final determination of the loss to acquire a new lease or other instrument correcting the loss and, failing to do so, this AGREEMENT, nevertheless, shall continue in force as to all remaining WORKING INTERESTs. Such loss shall be the joint loss of the PARTIES owning the WORKING INTEREST which was lost, and there shall be no readjustment of interest hereunder.

7.2. Title Examination. Unless otherwise agreed to by APPROVAL OF THE PARTIES, title examination and title opinions shall be made on the DRILLsite lease of any proposed EXPLORATORY WELL prior to commencement of DRILLing OPERATIONs and for any leases the PARTIES anticipate including in a PARTICIPATING AREA. The opinion will include the ownership of the surface estate, WORKING INTEREST, minerals, SUBSURFACE ESTATE, royalty, overriding royalty, net profits share payments, and PRODUCTION payments under the applicable leases. At the time a well is proposed, each PARTY contributing leases and/or oil and gas interests to the DRILLsite lease or to the spacing unit shall furnish to OPERATOR all abstracts, title opinions, title papers and curative material in its possession free of charge. All such information not in the possession of or made available to OPERATOR by the PARTIES, but necessary for the examination of title, shall be obtained by OPERATOR. OPERATOR shall cause title to be examined by outside attorneys. Copies of all title opinions and any and all other title material and correspondence concerning the title in OPERATOR's possession and prepared for the JOINT ACCOUNT shall be furnished to the DRILLING PARTIES in the well. The COSTs incurred by OPERATOR in such title examination shall be charged to the JOINT ACCOUNT. OPERATOR shall make no charge for services rendered by its staff attorneys or other employees in the performance of the above functions.

OPERATOR shall be responsible for securing curative matter or agreements required in connection with jointly held leases or oil and gas interests subject to this AGREEMENT. Each PARTY owning an interest in leases not jointly held by all PARTIES shall be responsible for securing all curative matter required in connection with leases or oil and gas interests contributed by such PARTY. OPERATOR shall be responsible for the conduct of hearings before governmental agencies for the securing of spacing or similar orders. This shall not prevent any PARTY from appearing on its own behalf and at its own expense at any such hearing.

Unless otherwise agreed to by APPROVAL OF THE PARTIES, no well shall be DRILLed on the SUBJECT LANDS until after (1) the title to the DRILLsite lease or PARTICIPATING AREA has been examined as above provided; and (2) title has been accepted by all of the DRILLING PARTIES in the well.

ARTICLE 8.
MEETINGS AND VOTING

8.1. Meetings. The PARTIES shall meet at such time as any PARTY shall request a meeting by giving not less than fifteen (15) days notice in writing to the other PARTIES, which notice shall specify the matter or matters to be considered or voted upon at such meeting. All meetings shall be held in a place to be designated by the PARTIES. If a place cannot be designated between the PARTIES, the meeting will be held in Anchorage, Alaska. Except as otherwise provided in this AGREEMENT, no decision or vote on any matter shall be made at any meeting unless either prior notice thereof has been given as herein provided or all the PARTIES agree to deal with the matter at the meeting in question. An absentee vote may be cast by telephone, mail, or electronic transmission received by OPERATOR's representative prior to the taking of the vote at the meeting, but shall not be counted with respect to any matter on the agenda which is materially amended at the meeting. Any such vote cast by telephone shall be subsequently confirmed in writing. A PARTY failing to vote shall be deemed to have voted in the negative.

Any matter may be submitted to the PARTIES for a vote without holding a meeting, provided that notice is submitted in writing, by First Class United States mail, Federal Express, telecopy, telex, or telephone subsequently confirmed in writing. In such event, each PARTY shall decide, and within thirty (30) days of receipt of such notice, unless otherwise provided herein, shall give in writing, by First Class United States mail, overnight delivery, facsimile, or telephone subsequently confirmed in writing, notice of its vote to each other PARTY. Any matter approved by such a vote shall be binding on all PARTIES hereto. OPERATOR shall give prompt notice to the PARTIES of the results of any such vote.

8.2. Vote Required for Approval. Except as otherwise specifically provided, all matters or proposals to be voted upon pursuant to this AGREEMENT requiring APPROVAL OF THE PARTIES, for approval and to be binding on all PARTIES, must have the affirmative vote in writing of one (1) or more PARTIES owning at least fifty-one percent (51%) of the PARTICIPATING INTEREST entitled to vote on the matter or proposals as may be specified in this AGREEMENT. For the purposes of this Section 8.2, a PARTY and any AFFILIATE shall be considered one (1) PARTY.

ARTICLE 9.
EXPLORATION PROCEDURE

9.1. Exploration Program for the Next Plan of Development/Exploration. Prior to June 1 of each year, OPERATOR shall furnish NON-OPERATORs with an outline describing the major exploratory activities and objectives and their related estimated EXPENDITURES (including but not limited to information about other exploratory activities, seismic programs, core holes, permitting, wells, and DRILLing EQUIPMENT), which OPERATOR proposes under the next Plan of Development/Exploration. NON-OPERATORs may respond with their work proposals prior to August 1. On or about October 1, OPERATOR shall furnish NON-OPERATORs with a cumulative outline describing the major exploratory activities and objectives and their related estimated EXPENDITURES (including but not limited to information about other exploratory activities, seismic programs, core holes, permitting, wells, and DRILLing EQUIPMENT), which all PARTIES propose under the next Plan of Development/Exploration. The PARTIES shall call a meeting, pursuant to Section 8.1, to be held no later than November 1 to discuss major exploratory activities and related EXPENDITURES. While such meeting and discussion will not be subject to the provisions herein set forth with respect to voting and approval of proposed OPERATIONs, the PARTIES will endeavor to agree in principle upon such major exploratory activities for the next Plan of Development/Exploration.

9.2. Procedure to Initiate Exploratory Drilling. All EXPLORATORY WELLs not included under the current approved Plan of Development/Exploration shall be proposed at least 270 days prior to the expiration date of that Plan of Development/Exploration.

A WORKING INTEREST OWNER shall not be prevented from proposing a well after that date; however, no more than one well proposal per PARTY may receive APPROVAL OF THE PARTIES after the specified date during any Plan of Development/Exploration.

9.3. Limitation on Exploration Expenditure. OPERATOR shall not, without the consent of all NON-OPERATORs, to be confirmed in writing within forty-eight (48) hours (exclusive of Saturday, Sunday, and federal holidays) of such consent, undertake any single exploration project reasonably estimated to require an expenditure in excess of a gross amount of TWO HUNDRED THOUSAND DOLLARS ($200,000), except in connection with the conduct of an OPERATION which has been previously authorized pursuant to this AGREEMENT.

OPERATOR shall furnish to DRILLING PARTIES informational copies of OPERATOR's Authorization for Expenditure(s) (AFEs) or itemization of estimated exploration EXPENDITURES in excess of a gross amount of FIFTY THOUSAND DOLLARS ($50,000) or for any lesser amount if an AFE is prepared for OPERATOR's own use.

OPERATOR shall prepare and submit to DRILLING PARTIES on a monthly basis a current summary estimate of EXPENDITURES to date and a summary estimate of the total COST of each well. If, during the DRILLing of an EXPLORATORY WELL, it appears that the total COST will exceed the latest estimated total COST, OPERATOR shall prepare and submit to each DRILLING PARTY for informational purposes only a detailed supplemental estimate showing the new estimated total COST of the well; provided, however, OPERATOR need not submit a detailed estimate unless the new estimated total COST exceeds the latest previous detailed estimated COST by more than fifteen percent (15%). During DRILLing OPERATIONs, OPERATOR shall make commercially reasonable effort to keep its COST records for each well on a current weekly basis so that it will be able to predict with reasonable accuracy at any given time whether or not the actual COST of the well will exceed the estimated total COST previously submitted by OPERATOR.

If during the DRILLing of an EXPLORATORY WELL it appears that the actual total COST will exceed the latest approved AFE for the well by fifteen percent (15%) or more, OPERATOR shall promptly prepare and submit for approval of the DRILLING PARTIES a detailed supplemental AFE showing the new estimated total COST. In any case, OPERATOR shall use its commercially reasonable efforts to give no less than seven (7) days notice in advance of the anticipated fifteen percent (15%) excess expenditure to the DRILLING PARTIES. Each DRILLING PARTY shall have a period of seven (7) days, including Saturday, Sunday and holidays, after receipt of such notice to notify OPERATOR whether it desires to participate in such additional EXPENDITURES beyond one hundred fifteen percent (115%) of the latest approved AFE, provided that if standby charges are then being incurred each DRILLING PARTY shall have only forty-eight (48) hours (inclusive of Saturday, Sunday, and federal holidays) to so notify OPERATOR.

Failure of a DRILLING PARTY to respond shall be deemed an election not to participate in such additional EXPENDITURES. If all DRILLING PARTIES elect to participate, OPERATOR shall continue the further DRILLing of the well for the account of all such PARTIES. If fewer than all DRILLING PARTIES elect to participate OPERATOR shall promptly inform the PARTIES, in writing, of the result of the vote(s) and give each PARTY forty-eight (48) hours (inclusive of Saturday, Sunday, and federal holidays) to change their vote. After the final vote any NON-DRILLING PARTY shall be subject to the provisions of Article 16 which shall apply to all depths DRILLed below the stratigraphic equivalent of the point at which the one hundred fifteen percent (115%) amount is expended. If no DRILLING PARTY elects to participate, then the well shall be PLUGGED AND ABANDONED by OPERATOR at the expense of the DRILLING PARTIES. This provision shall not be applicable in the event the over expenditure is the result of a blowout, explosion, fire, flood, storm, hurricane, earthquake, catastrophe, or other sudden emergency. In case of emergency, OPERATOR may make such EXPENDITURES, as in its opinion are necessary to safeguard life and property and to prevent pollution, but OPERATOR shall, as promptly as possible, report the emergency to NON-OPERATORs, and the resulting estimated expense.

ARTICLE 10.
PARTICIPATING AREAS

10.1. Proposal. At any time any WORKING INTEREST OWNER in the UNIT AREA may initiate a proposal for the establishment or revision of a PARTICIPATING AREA by submitting such proposal and the surface outline thereof in writing to the OPERATOR. OPERATOR shall then, within seven (7) days thereafter, submit such proposal in writing, including the date of proposed filing, to each WORKING INTEREST OWNER in the UNIT AREA. Such notice shall be given by OPERATOR at least sixty (60) days prior to the date OPERATOR contemplates filing the proposal with the AGENCY.

10.2. Approval of the Parties Required to Establish or Revise a Participating Area. A proposal to establish a PARTICIPATING AREA shall require the APPROVAL OF THE PARTIES within the proposed PARTICIPATING AREA. Any proposal to contract a PARTICIPATING AREA shall require APPROVAL OF THE PARTIES owning the WORKING INTEREST in the PARTICIPATING AREA immediately prior to such contraction. In no event, however, may a PARTICIPATING AREA be contracted, except as required by law, after FINAL DETERMINATION. Any proposal to enlarge a PARTICIPATING AREA shall require APPROVAL OF THE PARTIES owning a WORKING INTEREST therein immediately prior to said enlargement, together with the APPROVAL OF THE PARTIES owning the WORKING INTEREST in any TRACTs, or portions thereof, to be added to such PARTICIPATING AREA. Any proposal to consolidate one or more PARTICIPATING AREAs shall require APPROVAL OF THE PARTIES owning the WORKING INTEREST in each such PARTICIPATING AREA. If any such proposal receives the requisite APPROVAL OF THE PARTIES, OPERATOR shall file the proposal with the AGENCY on the date specified in the proposal.

10.3. Objections to Proposal. Up to thirty (30) days before the proposed filing date, any WORKING INTEREST OWNER may submit to all other WORKING INTEREST OWNERs written objections to such proposal. If, despite such objections, the proposal receives the APPROVAL OF THE PARTIES, as specified in Section 10.2, then the WORKING INTEREST OWNER making the objections may renew the same with the AGENCY.

10.4. Revised Proposal. If the proposal does not receive the APPROVAL OF THE PARTIES as specified in Section 10.2, and OPERATOR receives written objection thereto, the OPERATOR shall submit to the same WORKING INTEREST OWNERs as before, within forty (40) days of submission of the first proposal, a revised proposal, taking into account the objections made to the first proposal. If no proposal receives the APPROVAL OF THE PARTIES , as specified in Section 10.2, within sixty (60) days from the submission of the first proposal, then OPERATOR shall file with the AGENCY a proposal reflecting as nearly as practicable the various views expressed by the WORKING INTEREST OWNERs. However, prior to submission of such revised proposal to the AGENCY, OPERATOR shall furnish a copy of such proposal to all PARTIES.

10.5. Rejection of Proposal. If a proposal filed by OPERATOR as above provided is rejected by the AGENCY, OPERATOR shall initiate the new proposal in the same manner as provided in Section 10.1, and the procedure with respect thereto shall be the same as in the case of an initial proposal.

10.6. Expansion Subsequent to Final Determination. Except as required by the AGENCY, a proposal to expand a PARTICIPATING AREA subsequent to the FINAL DETERMINATION shall require the APPROVAL OF THE PARTIES owning a WORKING INTEREST therein immediately prior to said expansion, together with the APPROVAL OF THE PARTIES owning a WORKING INTEREST in any TRACTs, or portions thereof, to be added to such PARTICIPATING AREA.

10.7. Consolidation. Two or more PARTICIPATING AREAs may be combined subject to approval by the AGENCY.

10.8. Notice of Approval or Disapproval. If and when a proposal has been approved or disapproved by the AGENCY, OPERATOR shall give prompt notice thereof to each WORKING INTEREST OWNER in the UNIT AREA.

10.9. Date Established. For the purposes of this AGREEMENT, the effective date of a PARTICIPATING AREA shall be the date APPROVAL OF THE PARTIES was obtained pursuant to this Article 10. Absent APPROVAL OF THE PARTIES for a PARTICIPATING AREA, the effective date of the PARTICIPATING AREA shall be the date of the AGENCY approval of the PARTICIPATING AREA.

ARTICLE 11.
DETERMINATION OF TRACT PARTICIPATION

11.1. Participation of Working Interest Owners. For each PARTICIPATING AREA, each WORKING INTEREST OWNER shall have the right to participate and share in UNIT OPERATIONs, in UNIT EXPENDITURES, in the ownership of UNIT AREA EQUIPMENT, in the ownership of UNITIZED SUBSTANCES produced from the UNIT AREA, and in all the rights granted and obligations imposed by this AGREEMENT, including voting, on the basis of and in proportion to its PARTICIPATING INTEREST calculated in accordance with this Article and Article 13.

11.2. Initial Participations. All TRACT PARTICIPATIONs shall be on an ACREAGE BASIS prior to INTERIM DETERMINATION. These TRACT PARTICIPATIONs will be the basis for determining PARTICIPATING INTERESTs which will be the basis for voting, COST sharing and allocation of UNITIZED SUBSTANCES until INTERIM DETERMINATION. The ACREAGE BASIS shall be calculated as the ratio of the acreage that each TRACT affected bears to the total acreage of the SUBJECT LANDS, UNIT AREA or PARTICIPATING AREA, whichever is applicable. For the purposes of this definition, (i) the acreage of a TRACT within the SUBJECT LANDS or UNIT AREA shall be the acreage of such TRACT, as set forth in Exhibit 1 and, (ii) if there are two (2) or more undivided WORKING INTERESTs in a TRACT, there shall be apportioned to each such WORKING INTEREST that proportion of the acreage of the TRACT that such WORKING INTEREST bears to the entire WORKING INTEREST in the TRACT.

11.3. Equity Procedures.

a. Equity Procedures. The purpose of establishing EQUITY PROCEDURES will be to determine TRACT PARTICIPATIONs for INTERIM DETERMINATION and FINAL DETERMINATION. The EQUITY PROCEDURES will be consistent with the purposes, principles, bases, methodologies and considerations outlined in Sections 11.4 and 11.5.

b. Determination Committee. A committee will be formed and charged with developing the specific EQUITY PROCEDURES to be used for INTERIM DETERMINATION and the specific EQUITY PROCEDURES to be used for FINAL DETERMINATION ("Determination Committee"). The Determination Committee will include one designee and may include one alternate from each WORKING INTEREST OWNER. The Chairperson of the Determination Committee will be OPERATOR's designee. The Determination Committee is authorized to form whatever subcommittees it deems appropriate.

c. Data Requirements. As part of determining the EQUITY PROCEDURES, the Determination Committee will define the data requirements for INTERIM DETERMINATION and FINAL DETERMINATION.

These data requirements will describe the future contents of the "Common Data Base" as this term is defined in Sections 11.4 and 11.5, and will include all data from every well DRILLed and geological and geophysical data on the SUBJECT LANDS. By mutual agreement, the PARTIES may decide to include in the Common Data Base additional geological or geophysical data that was not jointly acquired by all the PARTIES under this AGREEMENT. If so, prior to the data becoming part of the Common Data Base, the PARTIES will agree on what, if any, compensation is appropriate to the owners of the data.

d. Deadlines. The Determination Committee will be formed within sixty (60) days after APPROVAL OF THE PARTIES is obtained for a PROPOSAL TO DEVELOP or after the AGENCY approves an application to expand the Unit beyond the Initial Unit Boundaries. The EQUITY PROCEDURES will be completed and approved within one hundred and eighty (180) days of forming the Determination Committee.

e. Approval of Equity Procedures. Approval of the EQUITY PROCEDURES shall require APPROVAL OF THE PARTIES in the PARTICIPATING AREA, if established. After approval, the EQUITY PROCEDURES shall become an Exhibit to this AGREEMENT.

f. Arbitration. If APPROVAL OF THE PARTIES is not received for the EQUITY PROCEDURES within the time limit specified in Subsection 11.3.d, all competing proposals will be submitted to arbitration for resolution pursuant to Exhibit 6.

11.4. Interim Determination.

a. Statement of Purpose. The purpose of INTERIM DETERMINATION is to set TRACT PARTICIPATIONs for each PARTICIPATING AREA that will be valid until FINAL DETERMINATION. These TRACT PARTICIPATIONs will be the basis for determining PARTICIPATING INTERESTs, which shall be the basis for voting, COST sharing and allocation of UNITIZED SUBSTANCES within that PARTICIPATING AREA until FINAL DETERMINATION. The WORKING INTEREST OWNERs intend for this process to be as simple as possible while still yielding TRACT PARTICIPATIONs that are reasonably close to those expected to result from FINAL DETERMINATION.

b. Determination Committee. The Determination Committee described in Subsection 11.3.b will be charged with formulating the necessary EQUITY PROCEDURES and then, after APPROVAL OF THE PARTIES, with completing the INTERIM DETERMINATION of TRACT PARTICIPATIONs.

c. Basis for INTERIM DETERMINATION. The TRACT PARTICIPATIONs determined by INTERIM DETERMINATION will be based on the "Original Developable Hydrocarbons" (original oil in place (OOIP) and/or original gas in place (OGIP)) as determined herein. No quality factors or other value adjustments shall be applied to the calculated Original Developable Hydrocarbons for the purpose of the INTERIM DETERMINATION of TRACT PARTICIPATIONs.

d. Scope of Development. To determine developable acreage, the Determination Committee must first agree on the scope of development, including the projected number and type of FACILITIES and projected number of DEVELOPMENT WELLs. The projected number of DEVELOPMENT WELLs will be based on the expected DRILLing reach from each DRILLing pad using the technology then available, expected well spacing, and a specific minimum cut off based on RESERVOIR(s) characteristics, such as minimum hydrocarbon-pore-feet. This scope of development shall be fixed only for the purposes of INTERIM DETERMINATION and shall be based on the latest approved PROPOSAL TO DEVELOP, as defined in Section 17.4, or Development Plan, as defined in Section 18.4, whichever is applicable. This scope of development shall not be a modification of the PROPOSAL TO DEVELOP or Development Plan, that would compromise the "primary objective" for development of the UNIT AREA as specified in Section 17.4. This shall not preclude the WORKING INTEREST OWNERs from modifying, revising or updating the Development Plan pursuant to Section 18.4.

e. Original Developable Hydrocarbons Calculation. To calculate the Original Developable Hydrocarbons for an area determined to be developable pursuant to Subsection 11.4.d, the Determination Committee shall:

(1) Define the RESERVOIR(s) to be included in the INTERIM DETERMINATION.

(2) Create and provide to all of the WORKING INTEREST OWNERs of the PARTICIPATING AREA a Common Data Base which includes all of the data specified in the data requirements to be relied upon for INTERIM DETERMINATION. Notwithstanding the provisions of Article 25 to the contrary, all data used by any PARTY in INTERIM DETERMINATION shall be included in the Common Data Base, and all data, without limitation, from every well DRILLed within the PARTICIPATING AREA and geological and geophysical data pertaining to the PARTICIPATING AREA prior to the deadline specified in Subsection 11.4.f shall be considered by the Determination Committee.

(3) Develop structure maps and isopach maps for the RESERVOIR(s) included in the INTERIM DETERMINATION. These maps shall show the oil/water contact(s), gas/oil contact(s) and/or highest known water for each RESERVOIR.

(4) Establish net pay cutoffs based on well log and/or core data, determine porosity and water saturation for the intervals identified as net pay, determine appropriate formation volume factors and calculate the Original Developable Hydrocarbons by TRACT for the developable area.

f. Deadlines. The last date upon which data may be collected and subsequently used for INTERIM DETERMINATION will be one hundred and eighty (180) days after the EQUITY PROCEDURES receive APPROVAL OF THE PARTIES pursuant to Subsection 11.3.e. INTERIM DETERMINATION will then be completed and approved within one hundred and eighty (180) days of such last data collection date.

g. Approval of Interim Determination. Approval of the INTERIM DETERMINATION of TRACT PARTICIPATIONs shall require APPROVAL OF THE PARTIES based on the PARTICIPATING AREA. These TRACT PARTICIPATIONs will be the basis for determining PARTICIPATING INTERESTs, which will be the basis for voting, COST sharing and allocation of UNITIZED SUBSTANCES until FINAL DETERMINATION.

h. Arbitration. If APPROVAL OF THE PARTIES is not received for the INTERIM DETERMINATION TRACT PARTICIPATIONs within the time limit specified in Subsection 11.4f, all competing proposals will be submitted to arbitration for resolution pursuant to Exhibit 6.

i. Participating Area Expansions Before Final Determination. If the PARTICIPATING AREA is expanded after INTERIM DETERMINATION, but before FINAL DETERMINATION, said expansion shall occur without redetermination of the then applicable TRACT PARTICIPATIONs. Alternatively, the WORKING INTEREST OWNERs of that expanded PARTICIPATING AREA may elect to redetermine the TRACT PARTICIPATIONs and PARTICIPATING INTERESTs consistent with the provisions of Sections 11.3, 11.4 and 11.7 by obtaining APPROVAL OF THE PARTIES in the PARTICIPATING AREA. If the allocation of COSTs and UNITIZED SUBSTANCES changes, equalization of UNIT EXPENDITURES and UNITIZED SUBSTANCES will be pursuant to Article 12.

11.5. Final Determination.

a. Statement of Purpose. The purpose of FINAL DETERMINATION is to permanently set TRACT PARTICIPATIONs for each PARTICIPATING AREA. These TRACT PARTICIPATIONs will be the final basis for determining PARTICIPATING INTERESTs, which shall be the basis for voting, COST sharing and allocation of UNITIZED SUBSTANCES among the WORKING INTEREST OWNERs within that PARTICIPATING AREA. The WORKING INTEREST OWNERs intend for this process to be as simple as possible while still yielding TRACT PARTICIPATIONs that are fair and equitable.

b. Determination Committee. The Determination Committee described in Subsections 11.3.b and 11.4.b will be charged with formulating the necessary EQUITY PROCEDURES and then, after APPROVAL OF THE PARTIES, with completing the FINAL DETERMINATION of TRACT PARTICIPATIONs.

c. Basis for Final Determination. The TRACT PARTICIPATIONs determined by FINAL DETERMINATION shall be based on value. This determination of value by TRACT will consider the amount of Original Developable Hydrocarbons underlying each TRACT, the anticipated fraction of hydrocarbons that will be recoverable, the relative value of said hydrocarbons, the COST of development, and operating COSTs.

d. Equity Formula. The Determination Committee will develop a value-based formula to calculate the TRACT PARTICIPATIONs ("Equity Formula"). This Equity Formula shall explicitly include the portion of recoverable hydrocarbons and the portion of COSTs allocated to each TRACT. Use of this Equity Formula will result in one TRACT PARTICIPATION value for each TRACT.

e. Scope of Development. To determine the fraction of hydrocarbons that will be recoverable, the Determination Committee must first agree on the scope of development, including the projected number of and type of FACILITIES, the projected number of DEVELOPMENT WELLs, and recovery processes that will be utilized. The projected number of DEVELOPMENT WELLs will be based on the expected DRILLing reach from a DRILLing pad using the technology then available, expected well spacing, and a specific minimum cut off based on RESERVOIR(s) characteristics, such as minimum hydrocarbon-pore-feet. This scope of development shall be fixed only for the purposes of FINAL DETERMINATION and shall be based on the latest approved Development Plan, as defined in Section 18.4. This scope of development shall not be a modification of the Development Plan that would compromise the "primary objective" for development of the UNIT AREA as specified in Section 17.4. This shall not preclude the WORKING INTEREST OWNERs from modifying, revising or updating the Development Plan pursuant to Section 18.4.

f. Original Developable Hydrocarbons Calculation. To calculate the Original Developable Hydrocarbons for the area determined to be developable pursuant to Subsection 11.5.e, the Determination Committee shall:

(1) Define the RESERVOIR(s) to be included in the INTERIM DETERMINATION.
(2) Create and provide to all of the WORKING INTEREST OWNERs of the PARTICIPATING AREA a Common Data Base which includes all of the data specified in the data requirements to be relied upon for INTERIM DETERMINATION. Notwithstanding the provisions of Article 25 to the contrary, all data used by any PARTY in INTERIM DETERMINATION shall be included in the Common Data Base, and all data, without limitation, from every well DRILLed within the PARTICIPATING AREA and geological and geophysical data pertaining to the PARTICIPATING AREA prior to the deadline specified in Subsection 11.4.f shall be considered by the Determination Committee.
(3) Develop structure maps and isopach maps for the RESERVOIR(s) included in the INTERIM DETERMINATION. These maps shall show the oil/water contact(s), gas/oil contact(s) and/or highest known water for each RESERVOIR.
(4) Establish net pay cutoffs based on well log and/or core data, determine porosity and water saturation for the intervals identified as net pay, determine appropriate formation volume factors and calculate the Developable Hydrocarbons by TRACT for the developable area.

g. Original Gas in Place Calculation. If a gas cap is present in a RESERVOIR that is included in FINAL DETERMINATION, and the determination of the original gas in place in the gas cap is necessary to properly define the value of the affected TRACTs, the original gas in place should be calculated using the methodology described in Subsection 11.5.f.

h. Recovery Considerations. The Determination Committee shall consider reasonable factors when assessing the portion of recoverable hydrocarbons that will be allocated to each TRACT. These include, but are not limited to, the following:

(1) Primary and waterflood recovery as affected by variations in RESERVOIR fluid and rock properties.
(2) Recovery of natural gas liquids and condensate from the gas cap, if present, and the value of these liquids, whether sold or used in an enhanced oil recovery process within the PARTICIPATING AREA.
(3) Additional recovery of oil that may result from implementation of enhanced oil recovery processes.
(4) Compression to be employed in gas production and the handling of produced water.

i. Cost Considerations. The Determination Committee shall consider categorization of capital COSTs when assessing the portion of COSTs that will be allocated to each TRACT. The Determination Committee shall base

the COST allocations on categorization of capital COSTs only. These include, but are not limited to, COSTs that are a function of:

(1) the developable area of the TRACT;

(2) the distance of the TRACT from the FACILITIES; homogeneous nature could make it advantageous to place big value here.

(3) liquid PRODUCTION volumes from the TRACT;

(4) gas PRODUCTION volumes from the TRACT; and

(5) recovery process(es) employed on the TRACT.

j. Deadlines. The last date that data may be collected and subsequently used for FINAL DETERMINATION shall be four (4) years after commencement of commercial PRODUCTION of UNITIZED SUBSTANCES. FINAL DETERMINATION will be completed and approved within three hundred and sixty-five (365) days after such last data collection date.

k. Option to Postpone Final Determination. The WORKING INTEREST OWNERs of a PARTICIPATING AREA may elect to postpone FINAL DETERMINATION for that PARTICIPATING AREA if other FACILITIES have been approved for that PARTICIPATING AREA, but not yet installed, by obtaining APPROVAL OF THE PARTIES in the current PARTICIPATING AREA. The postponed last date that data may be collected and subsequently used for FINAL DETERMINATION shall be no later than three (3) years after commencement of sustained commercial PRODUCTION of UNITIZED SUBSTANCES from the additional FACILITIES. The postponed FINAL DETERMINATION will be completed within three hundred and sixty-five (365) days after such last data collection date.

l. Approval of Final Determination. Approval of the FINAL DETERMINATION of TRACT PARTICIPATIONs shall require APPROVAL OF THE PARTIES in the current PARTICIPATING AREA. Except in the case of a PARTICIPATING AREA Expansion after the FINAL DETERMINATION as provided for in Subsection 11.5.n. below, these TRACT PARTICIPATIONs will be the basis for determining PARTICIPATING INTERESTs, which will be the final basis for voting, COST sharing and allocation of UNITIZED SUBSTANCES among the WORKING INTEREST OWNERs within that PARTICIPATING AREA.

m. Arbitration. If APPROVAL OF THE PARTIES in the PARTICIPATING AREA is not received for the FINAL DETERMINATION TRACT PARTICIPATIONs within the time limit specified in Subsection 11.5.j. and the option described in Subsection 11.5.k has not received APPROVAL OF THE PARTIES , all competing proposals will be submitted to arbitration for resolution pursuant to Exhibit 6.

n. Participating Area Expansions After Final Determination. If the PARTICIPATING AREA is expanded after FINAL DETERMINATION, said expansion shall occur without redetermination of TRACT PARTICIPATIONs. Alternatively, the WORKING INTEREST OWNERs of that expanded PARTICIPATING AREA may elect to redetermine the TRACT PARTICIPATIONs and the PARTICIPATING INTERESTs consistent with the provisions of Sections 11.3, 11.5 and 11.7 by obtaining APPROVAL OF THE PARTIES in the PARTICIPATING AREA. If the allocation of COSTs and UNITIZED SUBSTANCES changes, in that event equalization of UNIT EXPENDITURES and UNITIZED SUBSTANCES will occur pursuant to Article 12.

11.6. Agency Prescribed Tract Participation. Notwithstanding the provisions of the applicable UNIT AGREEMENT, as among the WORKING INTEREST OWNERs of a PARTICIPATING AREA, this AGREEMENT's reference to TRACT PARTICIPATIONs for such a PARTICIPATING AREA shall be those agreed to by the WORKING INTEREST OWNERs within such PARTICIPATING AREA.

11.7. Participating Interests. Each WORKING INTEREST OWNER's PARTICIPATING INTEREST in a PARTICIPATING AREA shall be calculated by multiplying its WORKING INTEREST in each TRACT, or portion

thereof, included in the PARTICIPATING AREA by the TRACT PARTICIPATION of said TRACT, and then summing these products. Each WORKING INTEREST OWNER's PARTICIPATING INTEREST in the UNIT AREA, outside of a PARTICIPATING AREA, is determined in accordance with the definition in Section 1.35. The Initial PARTICIPATING INTERESTs are as follows:

COOK INLET ENERGY, LLC	100%

11.8. Tract Participation Determination Costs. All COSTs associated with determination of TRACT PARTICIPATIONs pursuant to this Article shall be borne solely by the PARTIES incurring such COSTs. OPERATOR shall not charge any of these COSTs to the JOINT ACCOUNT.

ARTICLE 12.
EQUALIZATION: UNIT EXPENDITURES AND UNITIZED SUBSTANCES

12.1. Retroactive Adjustment of Expenditures. In connection with the PARTICIPATING INTEREST determination pursuant to Articles 11 and 13, EXPENDITURES for any particular PARTICIPATING AREA expended prior to (i) INTERIM DETERMINATION, or (ii) FINAL DETERMINATION shall be retroactively adjusted from the EFFECTIVE DATE of this AGREEMENT and equalized on the basis of disproportionate sharing of future UNIT EXPENDITURES within such PARTICIPATING AREA. The resulting UNIT EXPENDITURES, as adjusted by the INFLATION EQUIVALENT provided below, shall hereinafter be referred to as "Adjusted EXPENDITURES."

12.2. Disproportionate Sharing Procedure. For retroactive adjustment purposes, EXPENDITURES shall be classified into capital and expense categories, as determined by OPERATOR consistent with generally accepted accounting principles. Each WORKING INTEREST OWNER's share of the Adjusted EXPENDITURES is first calculated according to such WORKING INTEREST OWNER's share of EXPENDITURES which existed prior to INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, and is hereinafter referred to as its "Paid-In Share." Each WORKING INTEREST OWNER's share of the Adjusted EXPENDITURES is also calculated to reflect the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, and is hereinafter referred to as its "Revised Obligation." A WORKING INTEREST OWNER whose Paid-In Share exceeds its Revised Obligation is deemed to be over-invested and a WORKING INTEREST OWNER whose Paid-In Share is less than its Revised Obligation is deemed to be under-invested. Under-invested WORKING INTEREST OWNERs shall be allocated a proportionate share (in accordance with each under-invested WORKING INTEREST OWNER's share of UNIT EXPENDITURES after INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable) of all future capital investments and/or operating and maintenance COSTs, as appropriate, based on the UNIT EXPENDITURES which would normally be allocated to the over-invested WORKING INTEREST OWNERs following the effective date of INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, (in addition to such under-invested WORKING INTEREST OWNER's shares of all other Unit Expenditure allocations under this AGREEMENT) until equalization of COSTs occurs. In all cases, the INFLATION EQUIVALENT shall be applied on a monthly basis to over-invested UNIT EXPENDITURES until they are equalized. However, if any Adjusted UNIT EXPENDITURES have not been equalized upon termination of the TAX PARTNERSHIP, then any remaining balance shall be equalized in cash.

12.3. Retroactive Adjustment of Unitized Substances. UNITIZED SUBSTANCES produced from the SUBJECT LANDS, UNIT AREA or PARTICIPATING AREA, whichever is applicable, prior to the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, shall be retroactively adjusted and equalized on the basis of disproportionate sharing of future UNITIZED SUBSTANCES produced from the PARTICIPATING AREA. Subsequent to the effective date of the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, the WORKING INTEREST OWNERs in such PARTICIPATING AREA shall be allocated more or allocated less of their proportionate shares of UNITIZED SUBSTANCES based on TRACT PARTICIPATIONs established in the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, and the quantities of such UNITIZED SUBSTANCES which were produced prior to such determination until they are equalized. All adjustments shall be made on a volumetric basis without regard to gravity, quality, temperature, chemical composition, or other physical characteristics.

12.4. Volumetric Equalization Procedure. Each WORKING INTEREST OWNER in a PARTICIPATING AREA that previously has been allocated a lesser volume of a particular Unitized Substance (i.e., oil, gas or other category of product which is separately saved and accounted for) than would have been allocated to it had the TRACT PARTICIPATIONs established in the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, been in effect from the EFFECTIVE DATE of this AGREEMENT shall be in an under-allocated PRODUCTION position with respect to that Unitized Substance. Each WORKING INTEREST OWNER in a PARTICIPATING AREA that previously has been allocated a greater volume of a particular Unitized Substance than would have been allocated to it had such TRACT PARTICIPATIONs been in effect from the date of this AGREEMENT shall be in an over-allocated PRODUCTION position with respect to that Unitized Substance. Upon the effective date of the INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, each over-allocated WORKING INTEREST OWNER shall relinquish to the under-allocated WORKING INTEREST OWNERs, in proportion to their respective under allocations, such portions of the particular UNITIZED SUBSTANCES as are reasonably projected to eliminate its over-allocated position within a three (3) year period with respect to such UNITIZED SUBSTANCES. However, an over-allocated WORKING INTEREST OWNER shall not be required to relinquish more than fifty percent (50%) of its redetermined share of UNITIZED SUBSTANCES during any one month, unless its PARTICIPATING INTEREST is reduced by INTERIM DETERMINATION or FINAL DETERMINATION, whichever is applicable, by more than fifty percent (50%) in which case its relinquishment shall be no more than seventy-five percent (75%) until equalization occurs (even if longer than the above three (3) year period). All UNITIZED SUBSTANCES relinquished by over-allocated WORKING INTEREST OWNERs for the purpose of eliminating their over-allocated PRODUCTION positions shall accrue to the under-allocated WORKING INTEREST OWNERs in proportion to the amounts of their under-allocations. If any WORKING INTEREST OWNER remains in an over-allocated or under-allocated PRODUCTION position upon termination of the TAX PARTNERSHIP, then such positions shall be equalized in cash, based upon actual price received for the over-allocated PRODUCTION.

ARTICLE 13.
APPORTIONMENT OF UNIT EXPENDITURES AND OWNERSHIP OF UNITIZED SUBSTANCES AND PROPERTY

13.1. Commitment of Working Interest. Each PARTY hereby subjects and commits to this AGREEMENT all of its WORKING INTEREST in the UNIT AREA.

13.2. Accounting Procedure. OPERATOR shall execute its responsibilities to pay UNIT EXPENDITURES, as required by Articles 5 and 6, pursuant to Exhibit 3.

13.3. Apportionment of Unit Expenditures, Unitized Substances and Property Within a Participating Area.

a. Unit Expenditures. All UNIT EXPENDITURES incurred in the development and OPERATION of a PARTICIPATING AREA for or in connection with PRODUCTION of UNITIZED SUBSTANCES from any RESERVOIR for which such PARTICIPATING AREA is established shall be allocated to the WORKING INTEREST OWNERs within such PARTICIPATING AREA based upon the PARTICIPATING INTERESTs in effect at the time, in accordance with the provisions of Article 11. Such UNIT EXPENDITURES which are allocated to such TRACTs shall be borne by the WORKING INTEREST OWNERs owning the WORKING INTEREST in such TRACTs, as of the time such UNIT EXPENDITURES are incurred. All UNIT EXPENDITURES that are incurred by more than one PARTICIPATING AREA will be allocated among those PARTICIPATING AREAs as agreed among the WORKING INTEREST OWNERs owning the WORKING INTEREST within such PARTICIPATING AREAs.

b. Unitized Substances. The UNITIZED SUBSTANCES produced from a PARTICIPATING AREA shall be allocated to the WORKING INTEREST OWNERs within such PARTICIPATING AREA based upon the PARTICIPATING INTERESTs in effect at that time, in accordance with the provisions of Article 11. Such UNITIZED SUBSTANCES which are allocated to such TRACTs shall be owned by the WORKING INTEREST OWNERs owning the WORKING INTEREST therein. The amount of UNITIZED SUBSTANCES allocated to each TRACT, regardless of whether it is more or less than the actual PRODUCTION of UNITIZED SUBSTANCES from the well(s), if any, on that TRACT, will be deemed for all purposes to have been produced from that TRACT.

c. Property. All materials, EQUIPMENT and other property, whether real or personal, the COST of which is chargeable as UNIT EXPENDITURES and which have been acquired in connection with the development or OPERATION of a PARTICIPATING AREA, shall be owned by the WORKING INTEREST OWNERs within such PARTICIPATING AREA on the basis of their PARTICIPATING INTERESTs in the PARTICIPATING AREA.

13.4. Apportionment of Unit Expenditures and Property Outside a Participating Area.

a. Unit Expenditures. For OPERATIONs conducted outside an established PARTICIPATING AREA, all UNIT EXPENDITURES incurred in OPERATIONs within the UNIT AREA shall be borne on an ACREAGE BASIS by the DRILLING PARTIES within the UNIT AREA (or as recalculated after completion of DRILLing OPERATIONs, if necessary) on the basis of the primary objective formation or RESERVOIR proposed.

b. Property. All materials, EQUIPMENT and other property, whether real or personal, the COST of which is chargeable as UNIT EXPENDITURES and which have been acquired in connection with OPERATIONs conducted within the UNIT AREA shall be owned by the DRILLING PARTIES on an ACREAGE BASIS within the UNIT AREA. All other materials, EQUIPMENT and other property, whether real or personal, the COST of which is chargeable as UNIT EXPENDITURES shall be owned by the DRILLING PARTIES who acquire same.

ARTICLE 14.
UNIT PLANS OF EXPLORATION AND DEVELOPMENT

14.1. Submittal of Plans. Each unit plan for the exploration or development of the UNIT AREA (a "Plan of Exploration" or "Plan of Development') shall be submitted by the OPERATOR to the AGENCY in accordance with the UNIT AGREEMENT and the further provisions of this Article.

14.2. Proposal. OPERATOR shall initiate each proposed plan by submitting the same in writing to each WORKING INTEREST OWNER at least sixty (60) days before filing the same with the AGENCY. If within such period such plan receives the APPROVAL OF THE PARTIES as set out immediately below, then such plan shall be filed with the AGENCY. A Plan of Exploration shall require the APPROVAL OF THE PARTIES in the UNIT AREA. A Plan of Development shall require the APPROVAL OF THE PARTIES in the relevant PARTICIPATING AREA.

14.3. Objections to Plan. Up to forty-five (45) days before the filing date required by the Agency, any WORKING INTEREST OWNER may submit to OPERATOR written objections to such plan. If, despite such objections, the plan receives the APPROVAL OF THE PARTIES in the UNIT AREA, then the WORKING INTEREST OWNER making the objections may file their objections to such plan with the AGENCY and copy all WORKING INTEREST OWNERs.

14.4. Revised Plan. If such plan does not receive the APPROVAL OF THE PARTIES in the UNIT AREA, and OPERATOR receives written objections thereto, then OPERATOR shall submit to the WORKING INTEREST OWNERs a revised plan, taking into account the objections made to the first plan, at least thirty (30) days before the filing date required by the Agency. If no plan receives the APPROVAL OF THE PARTIES at least fifteen (15) days before the filing date required by the Agency, then OPERATOR shall file with the AGENCY a plan reflecting as nearly as practicable the various views expressed by the WORKING INTEREST OWNERs.

14.5. Rejection of Plan. If a plan filed by OPERATOR as above provided is rejected by the AGENCY, OPERATOR shall initiate a new plan in the same manner as provided in Section 14.2, and the procedure with respect thereto shall be the same as in the case of an initial plan.

14.6. Notice of Approval or Disapproval. If and when a plan has been approved or disapproved by the AGENCY, OPERATOR shall give prompt notice thereof to each WORKING INTEREST OWNER.

14.7. Supplemental Plans. If the requisite WORKING INTEREST OWNERs elect to proceed with a DRILLing, DEEPENing, SIDETRACKing, or PLUGGING BACK OPERATION in accordance with the provisions of this AGREEMENT, and such OPERATION is not provided for in the then current Unit Plan of Exploration or Development approved by the AGENCY, OPERATOR shall either (i) submit to the AGENCY for approval a

supplemental plan providing for the conduct of such OPERATION or (ii) if timing is critical, request a verbal authorization from the AGENCY to proceed with such OPERATION which shall be confirmed in writing at the earliest possible date.

14.8. Cessation of Operations Under the Plan. If any Plan of Exploration or Development approved by the AGENCY provides for the cessation of any DRILLing or other OPERATION therein provided for on the happening of a contingency and such contingency occurs, OPERATOR shall promptly cease such DRILLing or other OPERATION and shall not incur any additional UNIT EXPENDITURES, with the exception of necessary standby and other unavoidable UNIT EXPENDITURES in connection therewith unless and until such DRILLing or other OPERATION is again authorized, in accordance with this AGREEMENT, by the WORKING INTEREST OWNERs chargeable with such UNIT EXPENDITURES and by the AGENCY.

ARTICLE 15.
DRILLING, DEEPENING OR SIDETRACKING OF EXPLORATORY WELLS

15.1. Approvals Necessary for Drilling, Deepening, or Sidetracking Exploratory Wells. In order to be entitled to the rights, benefits, and obligations provided in this AGREEMENT, except as provided in Section 15.5, no EXPLORATORY WELL shall be DRILLed, DEEPENed, or SIDETRACKed unless the proposal receives the APPROVAL OF THE PARTIES in the SUBJECT LANDS or UNIT AREA, whichever is applicable.

15.2. Proposal to Drill Exploratory Well. Subject to the provisions of Section 9.2, any PARTY which owns a WORKING INTEREST in the deepest proposed objective depth or formation for an EXPLORATORY WELL within the SUBJECT LANDS or UNIT AREA, whichever is applicable, may propose and/or participate in the DRILLing of an EXPLORATORY WELL(s) on the SUBJECT LANDS. Such PARTY may propose such well by giving to each other such PARTY written notice thereof, providing (a) the surface and bottomhole location of the well; (b) the objective depth and formation to which the well is to be DRILLed; (c) a detailed DRILLing, testing, and abandonment plan for the well; (d) an AFE, or the estimated COST, properly itemized (including testing and abandonment or suspension), of the well; and (e) each PARTY's PARTICIPATING INTEREST. Each PARTY which has the right to participate in the DRILLing of the well as proposed shall give OPERATOR notice of its vote in writing within thirty (30) days after receipt of such notice, regarding the proposal(s). OPERATOR shall promptly inform the PARTIES, in writing, of the results of the vote(s). For the proposal(s) receiving the APPROVAL OF THE PARTIES , as provided in Section 15.1, each PARTY shall give the proposing PARTY and OPERATOR notice of its election by First Class United States mail, Federal Express, facsimile, or telephone to be subsequently confirmed in writing, within thirty (30) days (forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, if a rig is on location, standby charges are being incurred, and the proposed well was outlined at the most recent meeting pursuant to Section 8.1) after receipt of the notice that such OPERATION(s) had received the APPROVAL OF THE PARTIES . Failure of a PARTY to respond to a notice under this Section within the time required shall be deemed to be (i) a negative vote for a notice seeking APPROVAL OF THE PARTIES, and (ii) an election not to participate for a participation election proposal. If all PARTIES elect to participate in a well proposal, the well shall be DRILLed or caused to be DRILLed by OPERATOR for the account of all PARTIES within twelve (12) months of APPROVAL OF THE PARTIES. If fewer than all PARTIES elect to participate, and the proposal receives the APPROVAL OF THE PARTIES as provided in Section 8.2 and conforms to applicable spacing patterns and rules, then those approving PARTIES shall have the right to have OPERATOR DRILL the well, subject to the provisions of Section 15.3.

15.3. Exploratory Drilling and/or Exploratory Operations by Fewer than All Parties. If, after following the procedures of Section 15.2, 15.4, 15.5 or for a DEEPENing OPERATION, 15.6, or 15.7, all of the PARTIES entitled to participate in the proposal have not elected to do so, and the proposal received the APPROVAL OF THE PARTIES in the SUBJECT LANDS or UNIT AREA, whichever is applicable, OPERATOR shall inform all of the PARTIES of the elections made, whereupon any PARTY originally electing not to participate may then elect to participate by notifying OPERATOR within forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, after receipt of such information. OPERATOR shall then so notify the PARTIES electing to participate in writing and each such PARTY shall have ten (10) days (twenty-four (24) hours, inclusive of Saturday, Sunday, and federal holidays, if a rig is on location and standby charges are being incurred) after receipt of such notice to notify the other electing PARTIES in writing of its desire to (a) limit participation to such PARTY's PARTICIPATING INTEREST or (b) carry its

proportionate share of the PARTICIPATING INTEREST that would have otherwise been allocated to the NON-DRILLING PARTY. Failure of a PARTY to respond within the given time frame shall be an election under (a) above.

If each PARTY does not elect under (b) above, then within ten (10) days (twenty-four (24) hours, inclusive of Saturday, Sunday, and federal holidays, if a rig is on location and standby charges are being incurred) of the expiration of the preceding ten (10) day or twenty-four (24) hour (inclusive of Saturday, Sunday, and federal holidays) period, the PARTIES who originally elected to participate in the OPERATION shall agree as to the percentage of the outstanding PARTICIPATING INTEREST that each will carry and notify the other PARTIES of such agreement. If at the expiration of the said ten (10) day or twenty-four (24) hour (inclusive of Saturday, Sunday, and federal holidays) period the PARTIES have not come to an agreement, the proposal shall terminate immediately and the proposing PARTY may conduct such DRILLing OPERATION as the sole DRILLING PARTY and the other PARTIES shall be deemed to be NON-DRILLING PARTIES.

For purposes of this Section 15.3, the DRILLING PARTIES shall have the right, for a period of twelve (12) months from the date notice of the proposal of the EXPLORATORY WELL has been received, within which to commence actual DRILLing OPERATIONs with a drilling rig and tools capable of satisfactorily reaching the bottomhole location and depth designated in said notice. If OPERATIONs for the DRILLing of said well are not commenced within said period or the well is DRILLed but PLUGGED AND ABANDONED without reaching the objective depth or formation, and if a substitute well is not to be commenced pursuant to Section 15.4, the proposal shall terminate and the election of any PARTY not to join in the DRILLing of said well shall be of no force and effect and all rights and privileges accruing hereunder to the DRILLING PARTIES by reason of having elected to participate in said OPERATION shall terminate. The DRILLING PARTIES may also mutually agree to terminate the proposal at any time by giving notice to all PARTIES, with the same effect. If the DRILLING PARTIES commence OPERATIONs for the DRILLing of said well within the time specified, it shall proceed with such OPERATIONs with diligence and DRILL the well as specified in said proposal in a bona fide effort to find oil and/or gas. If OPERATOR is a NON-DRILLING PARTY, then the DRILLING PARTIES shall have the right to have OPERATOR conduct the DRILLing of such well or to designate a different OPERATOR for the DRILLing of such well. If the EXPLORATORY WELL is DRILLed to the proposed depth and/or formation for the account of fewer than all PARTIES, the provisions of Article 16 relating to Relinquishment of Interest by a NON-DRILLING PARTY shall apply.

15.4. Substitute Well. If impenetrable conditions or mechanical difficulties are encountered which render impracticable further DRILLing of an EXPLORATORY WELL DRILLed pursuant to this AGREEMENT before the objective depth or formation is reached, or if the objective depth or formation has been reached but the proposed logs have not been obtained, the DRILLING PARTIES may DRILL a substitute well or wells at a mutually agreed upon location and projected to a bottomhole location within one thousand (1000) horizontal feet from the original objective bottomhole location, hereinafter referred to as a "Substitute Well(s)".

If in OPERATOR's opinion the total cumulative COSTs of achieving the original objective, including the COST of the original and any Substitute Well(s), will not exceed the most recently approved AFE by fifteen percent (15%), the DRILLING PARTIES shall commence the actual DRILLing of the Substitute Well as soon as practicable, but not more than fifteen (15) months after the original well was suspended. If the total cumulative COSTs are expected to exceed the most recently approved AFE by fifteen percent (15%), then OPERATOR shall first prepare and submit a supplemental AFE for the APPROVAL OF THE PARTIES in the EXPLORATORY WELL. If such APPROVAL OF THE PARTIES is received, the approving PARTIES shall have the right to have the OPERATION proceed with the OPERATION subject to Section 15.3. If such APPROVAL OF THE PARTIES is not received, the well shall be PLUGGED AND ABANDONED. For the same reasons and in like time, the DRILLING PARTIES may commence the actual DRILLing of any number of consecutive Substitute Wells. Any such Substitute Well shall, for all purposes, be deemed to be the well for which it is the Substitute and shall be subject to all provisions of this AGREEMENT for an EXPLORATORY WELL.

Impenetrable conditions under this Section 15.4 shall mean conditions under which a prudent OPERATOR would cease DRILLing. For the purposes of this Section 15.4, the term "Substitute Well" shall not include a SIDETRACK OPERATION as defined in Section 15.6, but shall include an OPERATION involving the use of a portion of an existing well to DRILL a second hole in order to straighten the existing well hole, to DRILL around junk, to overcome mechanical difficulties or to achieve the original objective of the existing well.

15.5. Election at Casing Point. After any EXPLORATORY WELL has been DRILLed to the objective depth or formation as stated in the well proposal and all appropriate well information has been furnished to all DRILLING PARTIES, hereinafter sometimes referred to as "Casing Point", OPERATOR shall immediately notify each DRILLING PARTY by a telephone call to be confirmed in writing, setting forth whether OPERATOR desires to perform a cased PRODUCTION test on the well or to DEEPEN, SIDETRACK, or have the well PLUGGED AND ABANDONED. In the event of a DEEPENing proposal, OPERATOR shall provide the estimated COST and the operational details of such OPERATION, including the objective depth and formation and bottomhole location. A SIDETRACKing proposal shall be subject to the priority of OPERATIONs provision contained herein below, but shall be made according to Section 15.6.

Each DRILLING PARTY shall have a period of forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, after said telephone notice within which to notify each other DRILLING PARTY and OPERATOR by telephone, to be confirmed in writing, of its election to participate in the proposal. Each DRILLING PARTY shall also have the right to make a counterproposal for another OPERATION within said forty-eight (48) hour period, inclusive of Saturday, Sunday, and federal holidays. If a DRILLING PARTY makes a proposal for an OPERATION other than that proposed by OPERATOR, then OPERATOR shall notify each DRILLING PARTY as to which proposal will be considered first, in accordance with the priority of OPERATIONs herein below. Such PARTIES shall, within twenty-four (24) hours, inclusive of Saturday, Sunday, and federal holidays (or within forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, in the event of a SIDETRACKing proposal), after receipt of notification by OPERATOR as to the proposal to be considered first, notify OPERATOR of its election to participate in the proposal. Failure of a DRILLING PARTY to respond within the periods herein provided shall be deemed an election to not participate in the proposed OPERATION.

To conduct a SIDETRACK OPERATION, cased PRODUCTION test or DEEPENing OPERATION shall require the APPROVAL OF THE PARTIES entitled to vote in the EXPLORATORY WELL; except if conflicting proposals for further OPERATIONs are made hereunder and the APPROVAL OF THE PARTIES is not obtained, then the priority of OPERATIONs by the DRILLING PARTIES shall be: (1) cased PRODUCTION test at the objective formation; (2) DEEPENing; (3) cased PRODUCTION test at a shallower depth or formation; (4) SIDETRACKing; (5) perform other OPERATIONs on the well; (6) having the well PLUGGED AND ABANDONED. If all the DRILLING PARTIES elect to participate in an OPERATION, OPERATOR shall conduct the proposed OPERATION for the account of all such PARTIES, but if fewer than all DRILLING PARTIES (but one or more) elect to participate in such OPERATION, the provisions of Article 16 shall apply to the OPERATION.

If fewer than all previous DRILLING PARTIES elect to participate in a cased PRODUCTION test, the COST and risk of such OPERATION shall be shared and borne by each PARTY electing to participate therein in the proportion that its respective PARTICIPATING INTEREST bears to the total of the PARTICIPATING INTERESTs of all PARTIES participating therein. If fewer than all previous DRILLING PARTIES elect to participate in a DEEPENing proposal, the PARTICIPATING INTERESTs shall be determined pursuant to Section 15.3 and 15.7.

Should no DRILLING PARTY elect to perform a cased PRODUCTION test or to DEEPEN or SIDETRACK the well, the well shall be PLUGGED AND ABANDONED by OPERATOR at the joint COST of all DRILLING PARTIES. The provisions of this Section shall again be applicable following the conclusion of all further proposed OPERATIONs hereunder or in the event an OPERATION proposed herein terminates.

15.6. Sidetracking Operations. If at Casing Point a DRILLING PARTY desires to propose SIDETRACKing OPERATIONs in such well for the purpose of DRILLing a new well from the original wellbore, such proposal shall be made by giving to each other DRILLING PARTY written notice thereof, stating (a) the bottomhole location of the SIDETRACK; (b) the objective depth and formation to which the well will be DRILLed; (c) a detailed DRILLing and testing, or abandonment plan for the well; (d) the estimated COST of the well properly itemized; and (e) each PARTY's PARTICIPATING INTEREST. Each DRILLING PARTY in the well shall notify each other DRILLING PARTY and OPERATOR of its election to participate in writing, by telecopy, telex, or telephone to be subsequently confirmed in writing, within forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, after receipt of the initial notice, or after the receipt of notification by OPERATOR as to the proposal to be considered first if a DRILLING PARTY made a counter proposal. Failure of a PARTY to respond shall be deemed to be an election not to participate. Subject to Section 15.7, if all PARTIES elect to participate, the OPERATION shall be conducted by OPERATOR for the account of all PARTIES. If fewer than all PARTIES elect to participate, but the proposal receives approval in

accordance with Section 15.5, then those approving PARTIES shall have the right to have OPERATOR conduct the OPERATION, subject to the provisions of Section 15.3 and Article 16. Any NON-DRILLING PARTY of such new well shall receive credit for its share of net SALVAGE VALUE, if any, in the original hole as if such well had been PLUGGED AND ABANDONED.

15.7. Non-drilling Party's Right to Join in Deepening or Sidetracking. When a well DRILLed for the account of fewer than all PARTIES reaches its proposed objective depth or formation and a DRILLING PARTY or DRILLING PARTIES obtain approval in accordance with Section 15.5 or 15.6 to DEEPEN or SIDETRACK the well, OPERATOR shall immediately notify each NON-DRILLING PARTY by a telephone call to the NON-DRILLING PARTY's representative, to be confirmed in writing. Such notice to each NON-DRILLING PARTY shall provide the same information required for proposing the DEEPENing or SIDETRACKing OPERATION. Each NON-DRILLING PARTY shall have forty-eight (48) hours, inclusive of Saturday, Sunday, and federal holidays, after receipt of such telephone notice within which to elect to join in such DEEPENing or SIDETRACKing OPERATION. Failure of such NON-DRILLING PARTY to respond within the period herein provided shall be deemed an election to not participate in the proposed OPERATION. If such NON-DRILLING PARTY elects to participate, such PARTY shall pay to the DRILLING PARTIES of the original well its share of the COSTs for DRILLing the original well based on its PARTICIPATING INTEREST as if it had originally participated in the well down to the depth at which the SIDETRACKing or DEEPENing in the original well is to be commenced. Thereafter, such PARTY's PARTICIPATING INTEREST in the COSTs of the SIDETRACKing or DEEPENing OPERATION shall be calculated on its WORKING INTEREST in the SUBJECT LANDS after the applicable relinquishment penalties have been applied as a result of its election not to participate in the preceding OPERATION or OPERATIONs. If fewer than all NON-DRILLING PARTIES elect to participate in such OPERATION, the provisions of Article 16 shall apply to the OPERATION.

15.8. Obligations and Liabilities of the Parties. A PARTY electing not to participate in any OPERATION provided for in Sections 9.3, 15.5, or 15.6 above shall be relieved of the obligations and liabilities associated with such OPERATION except as to its share of the COSTs, for that portion of the well in which it participated, to have the well PLUGGED AND ABANDONED and the applicable non-consent penalties of Article 16. However, drilling rig and support EQUIPMENT stand-by charges incurred during an election period shall be considered part of the COST of the OPERATION just completed, and as such, shall be borne by the PARTIES participating in such OPERATION. Stand-by charges incurred subsequent to the PARTIES' response or expiration of the election period, whichever first occurs, shall be considered part of the COST of the proposed OPERATION and shall be borne by the PARTIES participating therein.

15.9. Contributions. In the event any PARTY has received an offer, either oral or in writing, for a cash contribution (including the sale of a PRODUCTION payment, the proceeds of such sale being committed to the payment of well COSTs), or an acreage contribution for the DRILLing of a well, it shall promptly give notice of such offer to all the PARTIES and shall include information as to the amount and terms under which the cash or acreage contribution is tendered. The pendency, offer, or acceptance of such an acreage or cash contribution shall not alter the procedure for electing participation or non-participation in the DRILLing of a well, nor create a new election to join such well. Any such cash contribution except a contribution to be repaid out of PRODUCTION, if and when received, shall be credited against the COST of DRILLing such well prior to the computation of total well COSTs for purposes of applying Article 16. Any such acreage contribution, if and when received, will be shared by the DRILLING PARTIES in proportion to their PARTICIPATING INTERESTs. All PARTIES having a PARTICIPATING INTEREST in a proposed EXPLORATORY WELL must approve any agreement for a cash contribution which requires such PARTIES to divulge EXPLORATORY WELL data. Each THIRD PARTY that acquires data from the PARTIES through a contribution agreement shall be required to maintain the confidentiality of the data so obtained in accordance with standards no less strict that those provided for in Article 25.

15.10. Allocation and Sharing of Mobilization and Demobilization Costs. MOBILIZATION COSTs for the DRILLing of any well, excluding SIDETRACKs, on the SUBJECT LANDS shall be charged to the first well DRILLed by the rig as well COST. Should any subsequent well or wells be DRILLed by this same drilling rig under the same drilling contract during a single Plan of Exploration/Development (i) on the SUBJECT LANDS, or (ii) employed in any other well by, for, or under permission of one or more of the PARTIES hereto controlling the drilling rig, MOBILIZATION COSTs shall be charged equally to the total wells DRILLed whether on the SUBJECT LANDS or

not. The DEMOBILIZATION COST shall be equally allocated to the wells DRILLed by the drilling rig and shall be paid by the PARTIES participating in such wells DRILLed.

15.11. Cost of Immovable Artificial Island, Platform, or Well Pad. The PARTIES participating in the first well DRILLed from an immovable artificial island, platform or well pad and the PARTIES participating in any subsequent wells DRILLed therefrom shall bear their proportionate share of the actual total COSTs of construction, OPERATION and maintenance of the artificial island, platform or well pad. In equalizing such construction COSTs, the PARTIES participating in the DRILLing of the first well ("Group I") shall be entitled to receive, in proportion to their respective ownership interests, as reimbursement from the PARTIES participating in the first subsequent well ("Group II"), before the spudding of such subsequent well (unless the first subsequent well is to be DRILLed under the same Plan of Exploration/Development as the first well, then in such event the actual reimbursement may be carried out after the spudding of such subsequent well), a sum of money equal to one half of the actual total COSTs of the construction of the artificial island, platform or well pad increased at the rate of one half of one percent (0.5%) per month for each month during any part of which such artificial island, platform or well pad has been operational prior to the spudding of such subsequent well. Before a second subsequent well is spudded (unless the second subsequent well is to be DRILLed under the same Plan of Exploration/Development as the first well, then in such event the actual reimbursement may be carried out after the spudding of such subsequent well), Group I and Group II will be entitled to receive a reimbursement from the PARTIES participating in the second subsequent well ("Group III") a sum of money equal to one-third of the actual total COSTs of the construction of the artificial island, platform or well pad, increased at the rate of 0.5% per month for each month during any part of which, such artificial island, platform or well pad has been operational prior to the spudding of such second subsequent well, divided equally between Group I and Group II. In like manner, through the eighth well DRILLed from an artificial island, platform or well pad, subsequent groups will pay to preceding groups the appropriate percentage of the actual total COSTs of the construction of the artificial island, platform or well pad, increased at the rate of one half of one percent (0.5%) per month for each month during any part of which, such artificial island, platform or well pad has been operational prior to the spudding of the applicable subsequent well, divided equally between the preceding groups. Operating and maintenance COSTs shall be allocated on a per well basis to each user group during the period of their use in accordance with their PARTICIPATING INTERESTs. Construction COSTs shall include the COSTs of access roads, camps, docks, airstrips, and other support FACILITIES, prorated according to proportionate use if devoted to OPERATIONs other than those on the artificial island, platform or well pad. If any artificial island, platform or well pad is subsequently dismantled or sold or the material and EQUIPMENT thereon (including gravel) otherwise disposed of, the COSTs and benefits of such dismantlement, sale or other disposition including cleanup, restoration and removal shall be allocated among user groups in the same proportion as the COSTs of construction have been allocated as described above. The COST of using other artificial islands, platforms or well pads located off the SUBJECT LANDS will likewise be equalized if such COSTs are allocable to multiple wells. If the well being DRILLed from an artificial island, platform or well pad is being DRILLed by fewer than all PARTIES, payment of COSTs pursuant to this Section shall be included in the total amount which the DRILLING PARTIES are entitled to recoup under Sections 16.2.

ARTICLE 16.
NON-CONSENT EXPLORATORY WELL OPERATIONS

16.1. Relinquishment of Interest and Percentage Recoupment for Non-Consent Exploration Operations. Whenever an EXPLORATORY WELL is DRILLed, DEEPENed or SIDETRACKed, or a cased PRODUCTION test on an EXPLORATORY WELL is conducted for the account of fewer than all DRILLING PARTIES, then upon commencement of such OPERATIONs, any NON-DRILLING PARTY shall be deemed to have relinquished to the DRILLING PARTIES, proportionately as to their PARTICIPATING INTEREST in such OPERATION, all of the NON-DRILLING PARTY's rights to PRODUCTION (whether or not produced by such well or pursuant to this AGREEMENT) from the SUBJECT LANDS, limited to the formation(s) tested and all proceeds from the sale of any or all of said PRODUCTION, until such time as the proceeds of the sale of said PRODUCTION, (after deducting PRODUCTION taxes, excise taxes, and LEASE BURDENs) shall equal (i) eight hundred percent (800%) of the COSTs of DRILLing, DEEPENing, SIDETRACKing, COMPLETING, conducting a cased PRODUCTION test, PLUGGING BACK, and having the well PLUGGED AND ABANDONED, including the COST of EQUIPMENT in the well up to and including the wellhead connections, which would have been chargeable to such NON-DRILLING PARTY if they had participated in same, and (ii) one hundred percent (100%) of the NON-DRILLING PARTY's share of the COST of OPERATION of the well(s), including but not limited to the COST to access FACILITIES,

commencing with first PRODUCTION and continuing until the NON-DRILLING PARTY's relinquished interest shall revert to them as prescribed hereunder. For purposes of this Article, a NON-DRILLING PARTY's' share of COSTs and PRODUCTION shall be calculated as if the NON-DRILLING PARTY had participated in the NON-CONSENT OPERATION.

If and when the DRILLING PARTIES recover from a NON-DRILLING PARTY's relinquished interest the amount provided for above, the relinquished interest of such NON-DRILLING PARTY shall automatically revert to them. Such NON-DRILLING PARTY shall not relinquish, by reason of their non-participation in such OPERATION, any other attribute of their WORKING INTEREST in the SUBJECT LANDS.

16.2. Recoupment from Production. Recoupment shall be taken from:

a. One hundred percent (100%) of a NON-DRILLING PARTY's share of all PRODUCTION attributed to the NON-CONSENT OPERATION; and,

b. If a NON-CONSENT OPERATION leads to the establishment or expansion of a PARTICIPATING AREA or PARTICIPATING AREAs in which that well is included, one hundred per cent (100%) of a NON-DRILLING PARTY's share of PRODUCTION from such a PARTICIPATING AREA.

16.3. Relinquishment Limitations. A NON-DRILLING PARTY's deemed relinquishment of interests for NON-CONSENT OPERATIONS shall be in and to all those formations, depths or zones from the surface of the earth to one hundred (100) feet below the stratigraphic equivalent of the deepest depth DRILLed in the well excluding formations which are committed to a PARTICIPATING AREA in which said NON-DRILLING PARTY has a PARTICIPATING INTEREST, or included in a pending application submitted by OPERATOR for a PARTICIPATING AREA or PARTICIPATING AREAs, prior to conducting such NON-CONSENT OPERATION.

A NON-DRILLING PARTY's deemed relinquishment of interests for any DEEPENing OPERATION shall be in and to all those formations, depths or zones from the stratigraphic equivalent of the point of departure from the original wellbore in the DEEPENing OPERATION to one hundred (100) feet below the stratigraphic equivalent of the deepest depth DRILLed in the well.

16.4. Materials and Equipment Used in Non-Joint Operation. All materials and EQUIPMENT in or appurtenant to a well in which an OPERATION for DRILLing a well is conducted for fewer than all PARTIES shall be owned by the DRILLING PARTIES in proportion to their respective PARTICIPATING INTERESTs in the COST thereof. In case of a cased PRODUCTION test, any materials or EQUIPMENT in or appurtenant to the well at the time of the commencement of the OPERATION and which are necessary for the conduct of such OPERATION may be used by DRILLING PARTIES so long as necessary. Upon reversion of a NON-DRILLING PARTY's relinquished interest pursuant to Section 16.3, such NON-DRILLING PARTY shall become the owner of that same interest in the EQUIPMENT and materials acquired hereunder. Any amount realized from the sale or disposition of EQUIPMENT acquired in connection with any OPERATION conducted under this Article 16 which would otherwise be owned by NON-DRILLING PARTY had they participated therein shall be credited to the total unreturned COST of such OPERATION and the COST of operating the well that is chargeable against the relinquished interest of such NON-DRILLING PARTY as above provided, and the balance, if any, shall be paid to such NON-DRILLING PARTIES.

16.5. Cost and Production Statements. The COST of any such OPERATION conducted for fewer than all PARTIES entitled to participate therein shall be determined in accordance with Exhibit 3. OPERATOR shall furnish to all PARTIES, except PARTIES which have relinquished acreage under Section 16.2, the estimated final COST for OPERATIONs, subject to Section 16.2 and Section 16.3, within thirty (30) days after its completion and a full statement of such COSTs shall be furnished by OPERATOR to all PARTIES within one hundred twenty (120) days after completion of the OPERATION. Until the NON-DRILLING PARTY'(s) relinquished interest reverts to it, OPERATOR shall furnish to all PARTIES, once each quarter, a statement of the COSTs of operating the well, such COSTs being likewise determined in accordance with Exhibit 3, and also OPERATOR shall furnish quarterly to such PARTIES initially entitled to participate therein a statement of the quantity of PRODUCTION from the well or wells during the preceding quarter together with the amount of the proceeds realized from the sale of all available PRODUCTION from the well during the preceding month. Notwithstanding the general quarterly issuance of statements as provided for above, if a recipient of such statements reasonably believes its interests will be paid out

during the quarter next following the quarter covered by such statement, it may request OPERATOR to thereafter prepare a statement on a monthly basis.

16.6. Reversion of Working Interest to Non-Drilling Party. A NON-DRILLING PARTY's WORKING INTEREST subject to recoupment from future PRODUCTION shall revert to the NON-DRILLING PARTY upon the occurrence of the first of the following events:

a. The NON-CONSENT OPERATION results in a dry hole (meaning a well which is not capable of producing UNITIZED SUBSTANCES) with no expansion of an existing PARTICIPATING AREA or PARTICIPATING AREAs or in the creation of a new PARTICIPATING AREA or PARTICIPATING AREAs.; or

b. PRODUCTION from a PARTICIPATING AREA in which the Non-Consent Well is included ceases and such PARTICIPATING AREA is terminated prior to complete recoupment by the DRILLING PARTIES;

c. Subject to Section 15.7, if the DRILLING PARTIES propose a DEEPENing or SIDETRACKing OPERATION, if the original Non-Consent OPERATION resulted in a dry hole; or

d. Upon complete recoupment in accordance with this Article.

16.7. Relinquishment Liabilities. No relinquishment hereunder will relieve the relinquishing WORKING INTEREST OWNER of any known or unknown obligations or liabilities incurred or arising out of a transaction or event occurring prior to the effective date of such relinquishment.

ARTICLE 17.
PROPOSAL TO DEVELOP

17.1. Statement of Purpose. The purpose of this Article is to outline the process by which the WORKING INTEREST OWNERs will make the initial decision to develop all or a portion of the UNIT AREA for the purpose of commencing commercial PRODUCTION of UNITIZED SUBSTANCES. The process described in this Article shall only occur until one PROPOSAL TO DEVELOP receives APPROVAL OF THE PARTIES. This Article only applies to the initial decision of the WORKING INTEREST OWNERs to develop. Subsequent development decisions will be conducted pursuant to Article 18. By approving a PROPOSAL TO DEVELOP, as defined in Section 17.4 below, and electing to participate in the OPERATIONs thereto pursuant to Section 17.5, the WORKING INTEREST OWNERs have committed themselves in principle to the funding of development of the UNIT AREA. Notwithstanding the foregoing, approval of a PROPOSAL TO DEVELOP does not authorize OPERATOR to incur any UNIT EXPENDITURES without obtaining the APPROVAL OF THE PARTIES in the PARTICIPATING AREA.

17.2. Intent to Propose Development. Any WORKING INTEREST OWNER that desires to develop all or a portion of the UNIT AREA for the purpose of commencing commercial PRODUCTION of UNITIZED SUBSTANCES by constructing and installing FACILITIES and DRILLing and COMPLETING DEVELOPMENT WELLs shall give written notice of its intent to the OPERATOR and other WORKING INTEREST OWNERs. Thereafter, the OPERATOR shall call a meeting to be held within thirty (30) days of receipt of such notice of all WORKING INTEREST OWNERs to discuss and review with the proposing WORKING INTEREST OWNER its intended proposal and its plans as they then exist.

17.3. Development Proposal Committee. Subsequent to the meeting described in Section 17.2, the WORKING INTEREST OWNERs will form a development proposal committee of interested WORKING INTEREST OWNERs to formulate conceptual development plans. Any interested WORKING INTEREST OWNER may participate in such committee. The committee may request the OPERATOR to prepare and circulate a preliminary AFE or AFEs for conceptual engineering or other studies.

17.4. PROPOSAL TO DEVELOP. Within one hundred and eighty (180) days of a WORKING INTEREST OWNER stating its intent to develop all or a portion of the UNIT AREA for the purpose of commencing sustained PRODUCTION of UNITIZED SUBSTANCES, or within one hundred and eighty (180) days of completion of the necessary conceptual engineering and/or other studies which receive APPROVAL OF THE PARTIES in the UNIT

AREA, whichever is later, the OPERATOR as the proposing WORKING INTEREST OWNER, or on behalf of the proposing WORKING INTEREST OWNER, shall submit to the WORKING INTEREST OWNERs a formal written proposal to develop all or a portion of the UNIT AREA . The "primary objective" for development of the portion of the UNIT AREA covered by the PROPOSAL TO DEVELOP shall be to maximize the value realized by the WORKING INTEREST OWNERs, as a whole, from the commercial PRODUCTION of UNITIZED SUBSTANCES, consistent with regulatory and lease requirements to prevent waste, conserve natural resources, protect correlative rights (including royalty interests), and minimize environmental impacts. For the purposes of this Section, value shall be measured in terms of specific economic quantification of the project performance, considering the time value of money, using generally recognized and accepted industry methods. The PROPOSAL TO DEVELOP shall include, but not be limited to:

a) The RESERVOIR or RESERVOIRs targeted for development;

b) The PARTICIPATING AREA or PARTICIPATING AREAs for which application has been or will be made with the AGENCY, recognizing approval of a PARTICIPATING AREA or PARTICIPATING AREAs by the WORKING INTEREST OWNERs of the UNIT AREA and submission of the application to the AGENCY shall be in accordance with Article 10;

c) The location or locations of the proposed FACILITIES and to which proposed PARTICIPATING AREA or PARTICIPATING AREAs they will be charged;

d) Reasonably detailed data and information concerning the design and engineering of FACILITIES;

e) The approximate timing of construction and installation of FACILITIES, and DRILLing and COMPLETING of a DEVELOPMENT WELL and other capital EXPENDITURES;

f) The approximate number of DEVELOPMENT WELLs and bottom hole locations thereof to be DRILLed in the UNIT AREA;

g) A total estimated commitment and UNIT EXPENDITURES schedule for the first calendar year and for each subsequent year;

h) The approximate timing for initiation of sustained PRODUCTION of UNITIZED SUBSTANCES and estimated annual PRODUCTION rates;

i) A description of the recovery process or processes to which the RESERVOIR or RESERVOIRs will be subjected; and

j) A forecast of future operating COSTs with appropriate supporting details.

The OPERATOR will seek APPROVAL OF THE PARTIES in the PARTICIPATING AREA for the PROPOSAL TO DEVELOP. Such approval, if obtained, does not authorize the OPERATOR to incur UNIT EXPENDITURES. Authorization of OPERATOR to incur UNIT EXPENDITURES will be pursuant to Article 18.

17.5. Timing of Election. Upon receipt of the PROPOSAL TO DEVELOP, each WORKING INTEREST OWNER shall have one hundred twenty (120) days in which to give its approval or disapproval of the proposal or to submit a counterproposal. Failure of a WORKING INTEREST OWNER to respond within the one hundred twenty (120) day period shall be deemed a WORKING INTEREST OWNER's non-approval. Subject to Section 17.6 if the APPROVAL OF THE PARTIES in the PARTICIPATING AREA is not obtained within the one hundred twenty (120) day period, the proposal shall terminate. If the APPROVAL OF THE PARTIES is obtained within the one hundred twenty (120) day period or if arbitration is initiated pursuant to Section 17.6, as soon as the Arbitration Board issues its decision, OPERATOR shall give immediate notice thereof to the WORKING INTEREST OWNERs. Upon receipt of the OPERATOR's notice that the APPROVAL OF THE PARTIES or arbitration result has been obtained for the PROPOSAL TO DEVELOP, each WORKING INTEREST OWNER shall have the remainder of the one hundred twenty (120) day period plus thirty (30) days, or thirty (30) days after receipt of the arbitration result, whichever is applicable, in which to elect to participate or to not participate in the OPERATIONs proposed in accordance with the PROPOSAL TO DEVELOP by giving written notice of such election to OPERATOR. Failure of a WORKING

INTEREST OWNER to respond within such time shall be deemed an election to not participate in the OPERATIONs proposed in accordance with the PROPOSAL TO DEVELOP.

17.6. Multiple Proposals to Develop. If one or more counterproposals is made to the PROPOSAL TO DEVELOP, the OPERATOR shall submit each counterproposal to the WORKING INTEREST OWNERs. Each WORKING INTEREST OWNER shall have thirty (30) days from receipt of the counterproposal, but in no event less than one hundred twenty (120) days from the original PROPOSAL TO DEVELOP, to vote to approve one (1) of the Proposals to Develop. If more than two (2) Proposals to Develop are submitted, the two (2) proposals receiving the highest WORKING INTEREST vote will be put to a second vote. Each WORKING INTEREST OWNER shall have thirty (30) days to cast this second vote. The PROPOSAL TO DEVELOP receiving APPROVAL OF THE PARTIES in the PARTICIPATING AREA will become the approved PROPOSAL TO DEVELOP.

If APPROVAL OF THE PARTIES is not obtained for any single PROPOSAL TO DEVELOP but the combined votes of the WORKING INTEREST OWNERs for the competing proposals and counterproposals would represent APPROVAL OF THE PARTIES, then said WORKING INTEREST OWNERs shall engage in good faith negotiations to resolve differences in the proposals and develop a mutually acceptable PROPOSAL TO DEVELOP. If the WORKING INTEREST OWNERs are unable to obtain APPROVAL OF THE PARTIES in the PARTICIPATING AREA for a single PROPOSAL TO DEVELOP within three hundred and sixty-five (365) days of the initial PROPOSAL TO DEVELOP, the two (2) proposals receiving the highest WORKING INTEREST vote shall be submitted to arbitration pursuant to Exhibit 6.

17.7. Participation.

a. Decision to Proceed with Proposal to Develop. If all WORKING INTEREST OWNERs elect to participate pursuant to Section 17.5 in the OPERATIONs proposed in the PROPOSAL TO DEVELOP, OPERATOR shall proceed with UNIT OPERATIONs for the JOINT ACCOUNT of each affected WORKING INTEREST OWNER on the basis of its PARTICIPATING INTEREST in the PARTICIPATING AREA or PARTICIPATING AREAs, or UNIT AREA if no PARTICIPATING AREA is established pursuant to Article 10. If a PROPOSAL TO DEVELOP receives the APPROVAL OF THE PARTIES in the UNIT AREA, and fewer than all of the WORKING INTEREST OWNERs elect to participate in the OPERATIONs proposed in said PROPOSAL TO DEVELOP, then OPERATOR shall proceed with UNIT OPERATIONs for the JOINT ACCOUNT of the participating WORKING INTEREST OWNERs ("Development PARTIES" or PARTICIPATING PARTY or PARTICIPATING PARTIES), and the WORKING INTEREST OWNERs who elect not to participate ("Non-Development PARTIES" or "NON-PARTICIPATING PARTY" or "NON-PARTICIPATING PARTIES") shall be subject to the non-consent provisions of this Article 17. At such time the Development PARTIES shall negotiate an Abandonment Agreement pursuant to Section 22.5.

b. Decision to Modify Proposal to Develop. If all of the WORKING INTEREST OWNERs who elect to participate in the OPERATIONs proposed in a PROPOSAL TO DEVELOP decide to make a "substantial modification" to the PROPOSAL TO DEVELOP prior to mobilization for OPERATIONs and after the PROPOSAL TO DEVELOP receives APPROVAL OF THE PARTIES or arbitration results have been obtained, OPERATOR shall submit the modified proposal to all WORKING INTEREST OWNERs, who had a right to participate in the PROPOSAL TO DEVELOP, who shall have sixty (60) days from receipt of the modified proposal to elect to participate or to not participate in the OPERATIONs proposed in the modified PROPOSAL TO DEVELOP by giving written notice of such election to OPERATOR who shall then notify all WORKING INTEREST OWNERs. For the purposes of this Subsection, such a substantial modification means one or any combination of the following, (i) a change to the total number of FACILITIES, (ii) movement of a significant Facility location more than one (1) mile from the proposed location, or (iii) a change in the total estimated capital commitment of more than ten percent (10%). Failure of a WORKING INTEREST OWNER to respond within the sixty (60) day period shall be deemed an election to not participate in the OPERATIONs proposed in the modified PROPOSAL TO DEVELOP. If all WORKING INTEREST OWNERs elect to participate in the OPERATIONs proposed in the modified PROPOSAL TO DEVELOP pursuant to the modified proposal, then OPERATOR shall proceed with UNIT OPERATIONs for the JOINT ACCOUNT of the WORKING INTEREST OWNERs. If fewer than all the WORKING INTEREST OWNERs elect to participate in the OPERATIONs proposed in the PROPOSAL TO DEVELOP pursuant to the modified proposal, then OPERATOR shall proceed with the UNIT OPERATIONs for the JOINT ACCOUNT of the participating WORKING INTEREST OWNERs ("Development PARTIES" or PARTICIPATING PARTY or PARTICIPATING PARTIES) on a non-consent basis, and the WORKING INTEREST OWNERs who elect not to participate ("Non-Development PARTIES" or "NON-PARTICIPATING PARTY" or "NON-PARTICIPATING PARTIES") shall be subject to the

non-consent provisions of this Article 17. Should fewer than all WORKING INTEREST OWNERs elect to participate in the modified proposal and the WORKING INTEREST OWNERs electing to participate decide to proceed with the UNIT OPERATION, OPERATOR shall notify the WORKING INTEREST OWNERs electing not to participate who shall have ten (10) days from receipt of the notification to change their election.

17.8. Development Non-Consent Provisions. If fewer than all WORKING INTEREST OWNERs elect to become Development PARTIES, then OPERATIONs conducted by the Development PARTIES shall herein be referred to as "Development NON-CONSENT OPERATIONS". The following provisions shall apply to Development NON-CONSENT OPERATIONS:

a. Allocation of Non-Consent Expenditures. Each Development PARTY shall, within ten (10) days after receipt of notice that a PARTY or PARTIES has elected not to participate in the OPERATIONs proposed in the PROPOSAL TO DEVELOP, notify OPERATOR of its desire to either (i) assume only its PARTICIPATING INTEREST in the PARTICIPATING AREA or PARTICIPATING AREAs, or UNIT AREA if no PARTICIPATING AREA is established pursuant to Article 10, or (ii) carry its PARTICIPATING INTEREST plus the proportionate share of the PARTICIPATING INTEREST that otherwise would have been allocated to the Non-Development PARTY or PARTIES. If the Development PARTIES do not reach an agreement with regard to the Non-Development PARTY's interest, the PROPOSAL TO DEVELOP shall terminate.

b. Operator to Operate. OPERATOR shall operate all Development NON-CONSENT OPERATIONS if OPERATOR is a Development PARTY. In the event OPERATOR is a Non-Development PARTY, OPERATOR shall resign pursuant to Article 5 if requested to do so in writing by the Development PARTIES owning at least fifty-one percent (51 %) of the WORKING INTEREST, excluding Non-Development PARTIES.

c. Unit Operations Resulting From Development Non-consent Operations as to a Specific Participating Area or Participating areas. Any Non-Development PARTY to a specific PROPOSAL TO DEVELOP shall be a NON-PARTICIPATING PARTY in any subsequently proposed UNIT OPERATION within the PARTICIPATING AREA or PARTICIPATING AREAs included in that PROPOSAL TO DEVELOP. Said NON-PARTICIPATING PARTY shall relinquish its PARTICIPATING INTEREST in the wells DRILLed and FACILITIES constructed in association with and PRODUCTION from the specific PARTICIPATING AREA or PARTICIPATING AREAs covered by the Development NON-CONSENT OPERATIONS until such time that the Development PARTIES in such specific PARTICIPATING AREA or PARTICIPATING AREAs have recouped four hundred percent (400%) of the NON-PARTICIPATING PARTY's share of any and all COSTs incurred or expended for such Development NON-CONSENT OPERATIONS within said PARTICIPATING AREA or PARTICIPATING AREAs from the revenue attributable to that NON-PARTICIPATING PARTY's PARTICIPATING INTEREST (had said NON-PARTICIPATING PARTY been a PARTICIPATING PARTY therein), after deducting the applicable ad valorem and severance taxes, royalties, overriding royalties, and operating expenses ("Payout"). Upon reaching Payout the NON-PARTICIPATING PARTY's PARTICIPATING INTEREST within said PARTICIPATING AREA or PARTICIPATING AREAs shall automatically revert to the NON-PARTICIPATING PARTY along with the NON-PARTICIPATING PARTY's proportionate share of all revenue, PRODUCTION, wells, FACILITIES, and any and all other tangible and intangible items which were within or attributable to the Payout account and the NON-PARTICIPATING PARTY shall then have all of the rights of any other non-operating PARTICIPATING PARTY. If prior to Payout occurring such NON-PARTICIPATING PARTY subsequently desires to participate in UNIT OPERATIONs within said PARTICIPATING AREA or PARTICIPATING AREAs it can accelerate Payout in the following manner: it shall pay an amount equal to four hundred percent (400%) of the NON-PARTICIPATING PARTY's share of the COSTs of the Development NON-CONSENT OPERATIONS within the PARTICIPATING AREA or PARTICIPATING AREAs incurred by the Participating PARTIES on behalf of the NON-PARTICIPATING PARTY to the point in time at which the payment is made, reduced by those revenues, to said point in time, attributable to that NON-PARTICIPATING PARTY's WORKING INTEREST (had said NON-PARTICIPATING PARTY been a PARTICIPATING PARTY therein) after deducting the applicable ad valorem and severance taxes, royalties, overriding royalties, and operating expenses. Once the NON-PARTICIPATING PARTY has made such a payment, it shall be deemed to have reached Payout and shall have all of the rights associated therewith as set forth above. Such allocations shall offset COSTs borne by Participating PARTIES in the same proportions as the COSTs were assumed under Section 17.8(a) above.

17.9. Operator Modifications to Proposal to Develop. In implementing the PROPOSAL TO DEVELOP, OPERATOR shall keep the PARTICIPATING PARTIES apprised of the progress of the PROPOSAL TO DEVELOP. OPERATOR may, without approval of PARTICIPATING PARTIES, make minor modifications to the PROPOSAL TO DEVELOP. Major modifications to a PROPOSAL TO DEVELOP which increase or decrease (i) the total number of DEVELOPMENT WELLs by more than twenty percent (20%); or (ii) the number of PRODUCTION handling FACILITIES except for pipelines by more than one (1) or their locations moved by more than one (1) mile; or (iii) FACILITIES handling capacity by more than thirty percent (30%); or (iv) pipeline lengths by more than twenty percent (20%); and (v) increase or decrease the total COST of a PROPOSAL TO DEVELOP by twenty-five percent (25%) ("Major Modification") shall require OPERATOR seek additional approvals as follows:

a. If the Major Modifications increase the total COST by the specified percentage, such Major Modification shall require APPROVAL OF THE PARTIES which elected to become Development PARTIES to such PROPOSAL TO DEVELOP; or

b. If the Major Modification decreases the total COST by such specified percentage, such Major Modification shall be submitted to all WORKING INTEREST OWNERs, who had a right to participate in the PROPOSAL TO DEVELOP. Such WORKING INTEREST OWNERs shall have sixty (60) days from receipt of the Major Modification notice to elect to participate or to not participate in the OPERATIONs proposed in the Major Modification to the PROPOSAL TO DEVELOP by giving written notice of such election to OPERATOR who shall then notify all WORKING INTEREST OWNERs of such elections. Failure of a WORKING INTEREST OWNER to respond within the sixty (60) day period shall be deemed an election to not participate in the OPERATIONs proposed in the Major Modification to the PROPOSAL TO DEVELOP. If all WORKING INTEREST OWNERs elect to participate in the OPERATIONs proposed in the Major Modification to the PROPOSAL TO DEVELOP, then OPERATOR shall proceed with UNIT OPERATIONs for the JOINT ACCOUNT of the WORKING INTEREST OWNERs. If fewer than all the WORKING INTEREST OWNERs elect to participate in the OPERATIONs proposed in the Major Modification to the PROPOSAL TO DEVELOP, then OPERATOR shall proceed with the UNIT OPERATIONs for the JOINT ACCOUNT of the participating WORKING INTEREST OWNERs ("Development PARTIES" or "PARTICIPATING PARTY" or "PARTICIPATING PARTIES") on a non-consent basis, and the WORKING INTEREST OWNERs who elect not to participate ("Non-Development PARTIES" or "NON-PARTICIPATING PARTY" or "NON-PARTICIPATING PARTIES") shall be subject to the non-consent provisions of this Article 17. Should fewer than all WORKING INTEREST OWNERs elect to participate in the Major Modification to the PROPOSAL TO DEVELOP and the WORKING INTEREST OWNERs electing to participate decide to proceed with the UNIT OPERATION, OPERATOR shall notify the WORKING INTEREST OWNERs electing not to participate who shall have ten (10) days from receipt of the notification to change their election. If a WORKING INTEREST OWNER has elected to participate in the Major Modification to the PROPOSAL TO DEVELOP but had previously elected to become a Non-Development PARTY pursuant to the PROPOSAL TO DEVELOP such PARTICIPATING PARTY shall be required to pay its proportionate share of all previous COSTs plus interest accrued pursuant to Exhibit 3 associated with such PROPOSAL TO DEVELOP. Such payment shall be made in cash to OPERATOR for the benefit of the PARTIES who participated in the PROPOSAL TO DEVELOP within fifteen (15) days of becoming a PARTICIPATING PARTY in the Major Modification to the PROPOSAL TO DEVELOP and such payment shall be reduced by those revenues, to said point in time, attributable to that NON-PARTICIPATING PARTY's WORKING INTEREST (had said NON-PARTICIPATING PARTY been a PARTICIPATING PARTY therein) after deducting the applicable ad valorem and severance taxes, royalties, overriding royalties, and operating expenses.

ARTICLE 18.
DEVELOPMENT AND PRODUCTION OPERATIONS

18.1. Purpose and Procedure. It is the purpose of this Article to set forth the procedure for development and PRODUCTION OPERATIONs including, but not limited to, the construction of FACILITIES, and the DRILLing, REWORKing, DEEPENing, SIDETRACKing, or PLUGGING BACK of DEVELOPMENT WELLs consistent with the approved or pending PROPOSAL TO DEVELOP.

18.2. Operating Committee. At the request of any NON-OPERATOR, a committee ("Operating Committee") shall be established composed of representatives of each PARTICIPATING PARTY within the applicable

PARTICIPATING AREA for which OPERATOR is charged with preparing an annual Development Plan and Budget. The purpose of such Operating Committee shall be to review the status of development and PRODUCTION and make recommendations to OPERATOR regarding preparation of the annual Development Plan and Budget. The Operating Committee shall meet on a quarterly basis in Anchorage, Alaska unless changed by the APPROVAL OF THE PARTIES in the PARTICIPATING AREA. Prior to May 1 of each year, the Operating Committee shall review the Development Plan to be proposed as provided in Section 18.4. A technical meeting shall be held which will precede this review of the Development Plan by the Operating Committee.

18.3. General. The approval process for EXPENDITURES pursuant to this Article involves three (3) basic steps:

a. approval of the Development Plan,

b. approval of a Budget that conforms to the approved Development Plan, and

c. approval of AFE's.

18.4. Development Plan. OPERATOR shall submit a proposed Development Plan to the WORKING INTEREST OWNERs on or before June 1 of each year. The basis for the first Development Plan shall be the approved or pending PROPOSAL TO DEVELOP. Subsequent Development Plans shall be annual updates to the preceding Development Plan. The Development Plan shall include, but not be limited to, the following:

a. The RESERVOIR or RESERVOIRs targeted for development;

b. The location or locations of any proposed FACILITIES and the sizing of same as well as the PARTICIPATING AREA or PARTICIPATING AREAs to which the FACILITIES will be attributed;

c. The approximate timing of construction, installation of the FACILITIES, and DRILLing and COMPLETING of DEVELOPMENT WELLs and other capital EXPENDITURES and the PARTICIPATING AREA or PARTICIPATING AREAs to which they will be attributed;

d. The approximate number, timing and order of DEVELOPMENT WELLs and bottomhole locations thereof to be DRILLed in the PARTICIPATING AREA or PARTICIPATING AREAs;

e. Estimated annual PRODUCTION rates of UNITIZED SUBSTANCES;

f. A description of the recovery process or processes to which the RESERVOIR or RESERVOIRs will be subjected; and

g. Projected manpower requirements and organizational structure.

Upon receipt of OPERATOR's proposed Development Plan, each WORKING INTEREST OWNER shall have thirty (30) days in which to propose any revisions or alternatives thereto.

The Development Plan, together with proposed revisions or alternatives thereto, shall be put to a vote on or before August 1 of each year and shall require APPROVAL OF THE PARTIES in the PARTICIPATING AREA. Upon such approval, the Development Plan shall be the basis for OPERATOR's preparation of Budgets, related work plans, and AFE's. The Development Plan shall always be consistent with prior approved AFE's. It is understood and agreed that when a PARTICIPATING PARTY initially commits itself to a Development Plan, including construction and installation of FACILITIES, it shall thereupon become and remain fully liable for its full share of the COST of the construction and installation of such FACILITIES in accordance with its PARTICIPATING INTEREST, and for the salvage and removal thereof when and as required by the lease or applicable regulation, order, or rule, whether or not such PARTY subsequently withdraws from further development of the UNIT AREA or of any portion thereof after commitment for development.

18.5. Budgets. The Budget prepared by OPERATOR shall be consistent with the proposed or approved Development Plan and any AFE's which have received APPROVAL OF THE PARTIES, and shall consist of a Capital Budget, an Expense Budget and a Volume Forecast.

a. Budget Format. OPERATOR will provide the Budgets in a standard format and in sufficient detail to allow the WORKING INTEREST OWNERs adequate review and will state each WORKING INTEREST OWNER's obligation prior to approval.

b. Period Covered by the Budget. Estimated commitments and EXPENDITURES shall be provided for the Budget Year. A Budget Year shall begin January 1 and end December 31 of the year following Budget submission and approval.

c. Timing of Budget Submission and Approval. OPERATOR shall provide the WORKING INTEREST OWNERs with the proposed preliminary Budget on or before June 1. Upon receipt of OPERATOR's proposed preliminary Budget, each WORKING INTEREST OWNER shall have thirty (30) days in which to propose any revisions or alternatives thereto. On or before October 1, OPERATOR shall deliver to each of the WORKING INTEREST OWNERs a final proposed Budget. The WORKING INTEREST OWNERs shall vote on the approval of the Budget by November 1 of that same calendar year. The proposed Budget, together with any proposed revisions or alternatives thereto, shall require APPROVAL OF THE PARTIES in the relevant PARTICIPATING AREA or PARTICIPATING AREAs.

d. Capital Budget. The Capital Budget is a series of line items that include all capital EXPENDITURES expected in the upcoming Budget Year. Each Capital Budget line item will specify the commitment to be made in the Budget Year and EXPENDITURES for subsequent years. Capital Budgets shall be approved on a line item basis, except for DEVELOPMENT WELLs, which will be approved as a single category. Approval of said items constitutes approval of scope and timing only, and thus no commitments of funds exceeding the OPERATOR's Expenditure Authority are authorized until an AFE is approved. Once an AFE or Supplemental AFE is approved pursuant to Section 18.7, the line item corresponding to the AFE will not require approval on any subsequent Capital Budget for so long as the AFE or Supplemental AFE is valid. Budgets will reflect prior approved valid AFE's for informational purposes.

EXPENDITURES within the OPERATOR's Expenditure Authority that are generally projected on a historical basis and not specifically identified at the time of Budget preparation will be grouped into a single category titled Minor Capital Investments and divided into separate sub-categories as appropriate. The Minor Capital Investment category may not exceed ten percent (10%) of the total Capital Budget.

e. Expense Budget. The Expense Budget will be divided into two categories: (1) Operations and maintenance (except major repairs), and (2) major repairs. The two categories will be sub-categorized as appropriate. The operations and maintenance category shall include as part of the total COST for each respective category an estimate of the off-site Technical Employee and technical organization indirect COSTs to be charged in accordance with Exhibit 3 of this AGREEMENT. Beginning with the initial Development Plan, OPERATOR will provide an estimate of indirect COSTs included in the operations and maintenance category of the Expense Budget and Capital Budget for APPROVAL OF THE PARTIES in the PARTICIPATING AREA as part of the budget submission. Such estimate shall include a detailed listing of off-site Technical Employee and technical organization but shall not be for approval purposes. The purpose of said approval is to establish a limit for such COSTs. OPERATOR may not bill any amount that exceeds such limit unless APPROVAL OF THE PARTIES in the PARTICIPATING AREA is obtained. OPERATOR shall also provide organization charts for Technical organizations covered by the detail listing. It is understood that any organization charts provided as part of the budget submission or detail listing are for information purposes only and are not subject to approval. With the exception of EXPENDITURES covered by the detail listing of Technical Employee and technical organization indirect COSTs, the Expense Budget is to be approved on a total basis. Approval of the Expense Budget constitutes the authority to expend or commit funds up to the approved total Expense Budget amount, except that no commitment of funds is authorized for items requiring an Expense AFE until such an AFE has been approved. The estimated COST associated with those items requiring an Expense AFE approval will be separately identified on the Expense Budget.

f. Volume Forecast. In conjunction with the submission of the Budget, the OPERATOR shall provide the WORKING INTEREST OWNERs with an annual volume forecast for the Budget Year. This forecast will include the estimated PRODUCTION of oil, gas, natural gas liquids, and water.

18.6. Operator's Expenditure Authority. OPERATOR is authorized by the WORKING INTEREST OWNERs to commit to or expend any single item of UNIT EXPENDITURE that is included in the approved Budget up to

OPERATOR's Expenditure Authority, which shall be TWO HUNDRED THOUSAND DOLLARS ($200,000). OPERATOR is not authorized to make any EXPENDITURES, except in emergencies, for DRILLing, COMPLETING, DEEPENing, PLUGGING BACK, or SIDETRACKing any wells without the APPROVAL OF THE PARTIES in the PARTICIPATING AREA.

If OPERATOR, subsequent to committing or expending funds under this authorization, determines that EXPENDITURES will exceed OPERATOR's Expenditure Authority, OPERATOR will immediately notify the WORKING INTEREST OWNERs by submitting an AFE in the full amount for their approval.

In an emergency, OPERATOR may take such steps and incur such expenses as in its opinion are required to deal with the emergency to safeguard life and property but OPERATOR, as promptly as possible, shall report the emergency to the other PARTIES and shall endeavor to keep them fully informed of the actions taken and COSTs incurred.

18.7. Authority for Expenditure (AFE). Upon approval by the WORKING INTEREST OWNERs of a Capital Budget and an Expense Budget, OPERATOR shall prepare and submit corresponding Capital AFE's and Expense AFE's for the APPROVAL OF THE PARTIES in the PARTICIPATING AREA. All AFE approval procedures are set forth in the remaining provisions of this Section.

a. Capital AFE. A Capital AFE will be issued for any capital expenditure over TWO HUNDRED THOUSAND DOLLARS ($200,000), but will only require APPROVAL OF THE PARTIES in the PARTICIPATING AREA when the initially estimated Capital AFE amount exceeds OPERATOR's Expenditure Authority. Notwithstanding the foregoing, a Capital AFE shall be issued, and shall require APPROVAL OF THE PARTIES in the PARTICIPATING AREA, for any expenditure for DRILLing, COMPLETING, DEEPENing, PLUGGING BACK, or SIDETRACKing any well regardless of the estimated COST.

b. Expense AFE's. An Expense AFE for single items or repair or replacement in excess of TWO HUNDRED THOUSAND DOLLARS ($200,000) will be prepared by OPERATOR and will be provided to the WORKING INTEREST OWNERs. APPROVAL OF THE PARTIES in the PARTICIPATING AREA will be required for all Expense AFE's of a repair or replacement (not maintenance) nature that exceed TWO HUNDRED THOUSAND DOLLARS ($200,000) except if such expense item was included in the approved Budget then OPERATOR's Expenditure Authority shall apply in lieu of the TWO HUNDRED THOUSAND DOLLARS ($200.000).

c. AFE Over-Run Limit. An approved AFE authorizes OPERATOR to expend the total approved amount plus any approved contingency. If no contingency is specified in the AFE, then OPERATOR is authorized to incur EXPENDITURES exceeding the total approved amount by fifteen percent (15%), or ONE MILLION DOLLARS ($1,000,000), whichever is less.

d. Supplemental AFE. When, with respect to any approved AFE, OPERATOR reasonably expects EXPENDITURES to exceed the total approved amount thereof plus the authorized excess expenditure specified in Subsection 18.7.c, or when OPERATOR plans a change in the scope of the work authorized therein, a supplemental AFE will be submitted to the WORKING INTEREST OWNERs for APPROVAL OF THE PARTIES in the PARTICIPATING AREA. OPERATOR shall make its commercially reasonable efforts to submit the Supplemental AFE thirty (30) days prior to the date that actual EXPENDITURES are expected to exceed the total approved amount plus the authorized excess EXPENDITURES.

e. AFE Content. All AFE requests or revisions will identify the total amount requested, estimates of quarterly EXPENDITURES for the Budget Year, and annual EXPENDITURES for each year thereafter. The AFE expenditure estimate will be shown by WORKING INTEREST OWNER total and will be categorized into the following items, if applicable, which include but are not limited to:

(1) engineering design;

(2) EQUIPMENT and materials;

(3) fabrication;

(4) transportation;

(5) installation; and

(6) contingency.

The contingency item shall be identified as to the items or reasons most likely to cause it.

Each AFE will contain sufficient information to enable the WORKING INTEREST OWNERs to evaluate the benefits and justifications for expenditure, such as, but not limited to:

(1) scope;

(2) design criteria;

(3) COST analysis;

(4) commitment pattern; and

(5) timing.

f. Expiration of Approved AFE's. Unless otherwise specified in the AFE, once approved, the work authorized by an AFE shall be commenced within three hundred sixty five (365) days of the APPROVAL OF THE PARTIES or the authorization thereunder shall expire.

18.8. Drilling and Development Wells.

a. Approval Required. No DEVELOPMENT WELL, other than a REQUIRED WELL, as set forth in Article 19, shall be DRILLed without the APPROVAL OF THE PARTIES in the PARTICIPATING AREA.

b. Notice of Proposed Development Well. Consistent with an approved Development Plan and Budget, any WORKING INTEREST OWNER in a PARTICIPATING AREA may propose the DRILLing and Completion of a DEVELOPMENT WELL by notifying OPERATOR who will then, within seven (7) days thereafter, request the APPROVAL OF THE PARTIES in the PARTICIPATING AREA. The WORKING INTEREST OWNER's proposal and the request for the APPROVAL OF THE PARTIES by OPERATOR shall specify (i) the projected surface and bottomhole location; (ii) the objective depth(s) and the RESERVOIR(s) to which the well is to be DRILLed, indicating which is the primary objective; (iii) the estimated COST; (iv) estimated date of commencement, and (v) the PARTICIPATING INTEREST of the PARTIES within the PARTICIPATING AREA. The location of the proposed DEVELOPMENT WELL shall conform to any applicable spacing pattern, or exception thereto, approved by the appropriate regulatory AGENCY. If such APPROVAL OF THE PARTIES is not obtained by OPERATOR within thirty (30) days (48 hours (inclusive of Saturday, Sunday, and federal holidays) if a rig is on location) of the date OPERATOR requested such APPROVAL OF THE PARTIES , such proposal shall terminate, If the APPROVAL OF THE PARTIES in the PARTICIPATING AREA who have the right to participate in the DRILLing is obtained, OPERATOR will, within seven (7) days thereafter, give notice to all such WORKING INTEREST OWNERs that the proposal to DRILL and COMPLETE a DEVELOPMENT WELL has been approved.

c. Basis of Participation. If APPROVAL OF THE PARTIES is obtained, each WORKING INTEREST OWNER who received a proposal to DRILL and COMPLETE a DEVELOPMENT WELL shall participate therein on the basis provided for in Articles 11 and 13, as appropriate and subject to its election in Article 17.

18.9. Reworkinging, Plugging Back, Deepening and Sidetracking of Development Well. Consistent with an approved Development Plan and Budget, any PARTY owning an interest in a PARTICIPATING AREA may propose and participate in the following OPERATIONs, subject to the terms set forth herein.

a. Rework Operations. Any WORKING INTEREST OWNER in the PARTICIPATING AREA may propose a REWORK OPERATION within a PARTICIPATING AREA by notifying OPERATOR who will then,

within seven (7) days thereafter, give notice to the remaining WORKING INTEREST OWNERs therein. The WORKING INTEREST OWNER's proposal and the notice given by OPERATOR shall (i) specify the work to be performed; (ii) the location of the well in which the OPERATION is proposed; (iii) the RESERVOIR(s) open to the wellbore; (iv) the estimated COST of the OPERATION; and (v) the PARTICIPATING INTEREST of the PARTIES in the OPERATION. If the estimated COST of the OPERATION exceeds OPERATOR's Expenditure Authority, APPROVAL OF THE PARTIES in the PARTICIPATING AREA shall be required and each WORKING INTEREST OWNER of the PARTICIPATING AREA shall participate therein on the same basis as provided for in Articles 11 and 13. If the estimated COST of the OPERATION is less than OPERATOR's Expenditure authority, OPERATOR may proceed at its discretion.

b. Plugging Back Operations. Any WORKING INTEREST OWNER in the PARTICIPATING AREA may deliver a proposal for PLUGGING BACK a DEVELOPMENT WELL within a PARTICIPATING AREA to OPERATOR who will then, within seven (7) days thereafter, give notice to the remaining WORKING INTEREST OWNERs therein. The WORKING INTEREST OWNER's proposal and the notice given by OPERATOR shall specify (i) the work to be performed; (ii) the location of the well in which the OPERATION is proposed; (iii) the projected depth(s); (iv) the objective RESERVOIR(s) or formation; (v) the estimated COST of the OPERATION; and (vi) the PARTICIPATING INTEREST of the PARTIES in the OPERATION. If APPROVAL OF THE PARTIES in the PARTICIPATING AREA is obtained, each WORKING INTEREST OWNER who receives a proposal for PLUGGING BACK a well shall participate therein on the basis provided for in Articles 11 and 13.

c. Deepening and Sidetracking Operations.

(1) Any WORKING INTEREST OWNER in the PARTICIPATING AREA may propose a DEEPENing or SIDETRACKing OPERATION to a horizon within a PARTICIPATING AREA by delivering same to OPERATOR who will then, within seven (7) days thereafter, give notice to the remaining WORKING INTEREST OWNERs therein. The WORKING INTEREST OWNER's proposal and the notice given by OPERATOR shall specify (i) the work to be performed; (ii) the location of the well in which the OPERATION is proposed; (iii) the projected depth and bottomhole location; (iv) the objective RESERVOIR(s), indicating which is the primary objective; (v) the estimated COST of the OPERATION, including the COSTs of COMPLETING the well; and (vi) the PARTICIPATING INTEREST of the PARTIES. If APPROVAL OF THE PARTIES in the PARTICIPATING AREA is obtained, each WORKING INTEREST OWNER who receives a proposal to DEEPEN or SIDETRACK a well to COMPLETE same shall participate therein on the basis provided for in Articles 11 and 13.

(2) Any DEEPENing or SIDETRACKing OPERATION proposed below the base of the stratigraphic equivalent of the deepest horizon covered by the applicable PARTICIPATING AREA shall be conducted in accordance with Article 15.

18.10. Response to Notice. Within thirty (30) days after receipt of OPERATOR's notice of a proposal pursuant to Section 18.9, each WORKING INTEREST OWNER receiving such notice shall advise OPERATOR whether or not it wishes to approve the proposed OPERATION. If a drilling or workover rig is on location, such notice and response to same may be given by telephone and promptly confirmed in writing and the response period shall be limited to forty-eight (48) hours (inclusive of Saturday, Sunday, and federal holidays). Failure of a notified WORKING INTEREST OWNER to respond to such notice within the period above fixed shall constitute a decision not to approve the proposal. If APPROVAL OF THE PARTIES is not received, the proposal shall terminate.

If APPROVAL OF THE PARTIES in the PARTICIPATING AREA is received for the proposed OPERATION, then OPERATOR shall, within one hundred and fifty (150) days after the expiration of the thirty (30) day notice period, or as promptly as possible after the expiration of the forty-eight (48) hour (inclusive of Saturday, Sunday, and federal holidays) period when a drilling rig or workover rig is on location, as the case may be, actually commence the proposed OPERATION. Notwithstanding the Force Majeure provisions of Article 34, if the proposed OPERATION has not been commenced within the period above fixed, the proposal shall terminate immediately.

18.11. Rights and Obligations of the Participating Parties. Whenever an OPERATION is conducted for the account of the WORKING INTEREST OWNERs entitled to participate therein, the entire COST and risk of conducting such OPERATION shall be borne by the PARTICIPATING PARTIES on the basis provided for in Articles 11 and 13, as appropriate.

18.12. Limitation on Development Operations. No DEVELOPMENT WELL shall be DEEPENed, SIDETRACKed or PLUGGED BACK without APPROVAL OF THE PARTIES in the PARTICIPATING AREA. A recompletion (inclusive of DEEPENing, SIDETRACKing and PLUGGING BACK) shall not be conducted on a well capable of PRODUCTION in PAYING QUANTITIES without the consent of all the PARTIES owning a PARTICIPATING INTEREST in the PARTICIPATING AREA of such well.

18.13. Drillsite Usage Agreement. A DRILLsite usage agreement shall be required before any OPERATION is commenced from a previously prepared DRILLsite within the UNIT AREA when the PARTICIPATING INTERESTs in the proposed OPERATION differ from the PARTICIPATING INTERESTs in the PARTICIPATING AREA associated with the DRILLsite. The DRILLsite usage agreement shall require separate APPROVAL OF THE PARTIES by both the WORKING INTEREST OWNERs owning PARTICIPATING INTERESTs in said PARTICIPATING AREA and by the WORKING INTEREST OWNERs owning PARTICIPATING INTERESTs in the proposed OPERATION.

18.14. Facility Sharing of Unit Facilities. In the event at any time a PARTY's PARTICIPATING INTEREST in PRODUCTION is different than its PARTICIPATING INTEREST in the FACILITIES through which the PRODUCTION is being gathered and processed, the following shall apply:

a. Allocation of Capacity. Each PARTY shall have the absolute right to use each set of FACILITIES in an amount equal to the PARTY's PARTICIPATING INTEREST in such FACILITIES. No PARTY shall have the right to use a Facility in an amount greater than its PARTICIPATING INTEREST in such Facility where doing so will cause another PARTY having PRODUCTION to curtail its share of PRODUCTION below a level equal to its PARTICIPATING INTEREST in such Facility. Any PARTY or PARTIES attempting to use a Facility in an amount greater than its PARTICIPATING INTEREST in such Facility will be required to reduce its (or their) use of a Facility if necessary to permit another PARTY having PRODUCTION to use the Facility at a level equal to its PARTICIPATING INTEREST in such Facility.

b. A Party's Ability to Use Greater than its Participating Interest. Subject to paragraph 18.14.a. above, a PARTY or PARTIES shall be permitted to use a Facility for its (or their) PRODUCTION in an amount greater than the PARTY's PARTICIPATING INTEREST in the Facility to the extent that there is unutilized capacity in the Facility. Where it does so, such PARTY or PARTIES shall pay to the others a fee calculated in accordance with paragraph d. of this Section for the amount of such excess usage.

c. Determination of Party's Participating Interest in Facilities. For purposes of this Section 18.14, a PARTY's PARTICIPATING INTEREST in Gathering EQUIPMENT or Onshore Processing FACILITIES shall be calculated in the following manner:

(1) OPERATOR shall determine the total capital invested in the relevant Facility from the EFFECTIVE DATE of this AGREEMENT until the effective date of such determination;

(2) OPERATOR shall determine the portion of the amount determined in 1) above allocable to each PARTY;

(3) The PARTICIPATING INTEREST of each PARTY in the relevant Facility shall be equal to the proportion that the amount determined for such PARTY in 2) above bears to the total amount calculated in 1) above.

d. Fee. Where a PARTY or PARTIES shall pay to another a fee calculated in accordance with this paragraph, the fee shall be assessed on a per barrel basis and shall be equal to the per barrel COST of service of the relevant Facility, calculated based on the total direct and indirect operating COSTs, depreciation (calculated on a unit of PRODUCTION basis) and property and other taxes allocable to such Facility, and with such additional components as may be necessary for the fee to produce an overall, after tax rate of return of twelve (12%) on the depreciated total capital investment in the Facility. Once such a fee is required to be calculated in accordance with this paragraph, the fee shall be updated every two (2) years thereafter, effective on January 1 of the year in which the fee otherwise shall be

required to be updated, based on the COSTs, volumes and other relevant data experienced for the twelve (12) month period ending the previous October 1st.

18.15. Facility Sharing of Non-Unit Facilities. To the extent required by the Development Plan, OPERATOR shall negotiate for access to non-Unit FACILITIES on behalf of the WORKING INTEREST OWNERs. OPERATOR shall enter a contract for access to non-Unit FACILITIES upon Approval of such contract by the PARTICIPATING PARTIES. OPERATOR shall charge each PARTICIPATING PARTY its proportionate share of COSTs of providing such access to non-UNIT FACILITIES.

18.16. Definitions for Purposes of Article 18. When used in this Article, the phrase "WORKING INTEREST OWNER" shall mean only a WORKING INTEREST OWNER owning unrelinquished PARTICIPATING INTERESTs in the PARTICIPATING AREA and the phrase "APPROVAL OF THE PARTIES" or "APPROVAL OF THE PARTIES in the PARTICIPATING AREA" or the like shall mean APPROVAL OF THE PARTIES owning unrelinquished PARTICIPATING INTERESTs in the PARTICIPATING AREA.

ARTICLE 19.
REQUIRED WELLS

19.1. Notice of Required Well. For the purpose of this Article, a well shall be deemed a REQUIRED WELL if the DRILLing thereof is required by a final order of the AGENCY. Such an order shall be deemed final upon expiration of the time allowed for appeal therefrom without the commencement of appropriate appeal proceedings or, if such proceedings are commenced within said time, upon the final disposition of the appeal. Whenever OPERATOR receives any such order, it shall promptly notify each PARTY. If any such PARTY should appeal such an order, the PARTY appealing shall give prompt notice thereof to OPERATOR who shall give notice of same to the other PARTIES affected by same, and upon final disposition of the appeal, OPERATOR shall give each PARTY affected by same prompt notice of the result thereof. The OPERATOR shall propose the REQUIRED WELL to the appropriate PARTIES pursuant to Subsection 18.8.b, if the same is a DEVELOPMENT WELL, or pursuant to Section 15.2, if the same is an EXPLORATORY WELL and shall advise the PARTIES of any alternatives that are available in lieu of DRILLing the well. Notwithstanding the provisions of Section 15.1, 15.2 or Subsection 18.8.b to the contrary, no APPROVAL OF THE PARTIES is required to be obtained for a proposal to DRILL a REQUIRED WELL. If no notified PARTY elects to DRILL the REQUIRED WELL within the period allowed for such election, and if any of the following alternatives is available, the first such alternative which is available shall be followed (unless APPROVAL OF THE PARTIES in the PARTICIPATING AREA is received to follow a different alternative):

a. Compensatory Royalties. If compensatory royalties may be paid in lieu of DRILLing the well and if payments thereof receives the APPROVAL OF THE PARTIES who would be chargeable with such UNIT EXPENDITURES if the well were DRILLed, OPERATOR shall pay such compensatory royalties for the JOINT ACCOUNT of said PARTIES; or

b. Contraction. If the DRILLing of the well may be avoided, without other penalty, by contraction of the PARTICIPATING AREA or UNIT AREA, OPERATOR shall follow the provisions of Articles 11 and 13 in order to make a reasonable effort to effect such contraction pursuant to the terms of this AGREEMENT; or

c. Termination. If the REQUIRED WELL is necessary to maintain the Unit, the PARTIES shall join in termination of the UNIT AGREEMENT in accordance with its provisions.

If none of the foregoing alternatives are available, OPERATOR shall immediately notify each PARTY. Then, unless a viable alternative is found, OPERATOR shall DRILL the REQUIRED WELL as an EXPLORATORY WELL or DEVELOPMENT WELL, whichever is applicable, in accordance with the provisions of Section 15.2 or Section 18.8, respectively, and all PARTIES entitled to participate therein shall, without election by such PARTIES, be deemed to have elected to participate.

ARTICLE 20.
ADJUSTMENT ON ESTABLISHMENT OR CHANGE OF PARTICIPATING AREA

20.1. When Adjustment Made. Whenever, in accordance with the UNIT AGREEMENT, a PARTICIPATING AREA is established to include lands beyond the initial UNIT boundary or revised, to include lands beyond the initial UNIT boundary and whenever two or more PARTICIPATING AREAs are combined (the PARTICIPATING AREA resulting from such establishment, revision, or combination being hereinafter referred to as a "resulting area"), such that the combined PARTICIPATING AREA includes lands beyond the initial UNIT boundary, an adjustment shall be made in accordance with the succeeding provisions of this Article, as of the date on which the establishment, revision or combination that creates such resulting area becomes effective, such date being hereinafter referred to as the "effective date" of such resulting area. For the purposes of this Article, all COSTs of a Usable Well, as defined below, shall be deemed to have been incurred as the funds are expended.

20.2. Definitions. As used in this Article:

a. "Usable Well" within a resulting area means a well which is either (i) DRILLed through a RESERVOIR for which the resulting area was created or (ii) used as a disposal well, injection well, or otherwise in connection with the PRODUCTION of UNITIZED SUBSTANCES from such resulting area.

b. "Intangible Value" of a Usable Well within a resulting area means the amount of those COSTs incurred in DRILLing, DEEPENing, PLUGGING BACK, SIDETRACKing, and COMPLETING such well, down to the deepest RESERVOIR for which such resulting area was created, which contribute to the PRODUCTION of UNITIZED SUBSTANCES therefrom and which are properly classified as intangible COSTs in conformity with accounting practices generally accepted in the industry.

c. "Tangible Property" serving a resulting area means any kind of property other than Intangible Property (whether or not in or pertaining to a Usable Well) which has been acquired for use in or in connection with the PRODUCTION of UNITIZED SUBSTANCES from such resulting area or any portion thereof, and the COST of which has been charged as COSTs pursuant to this AGREEMENT.

d. "Value" of Tangible Property means the amount of COSTs incurred in the construction or installation thereof (except installation COSTs properly classified as part of the Intangible COSTs incurred in connection with a Usable Well).

20.3. Method of Adjustment on Establishment or Enlargement. As promptly as reasonably possible after the effective date of a resulting area created by the establishment or enlargement of a PARTICIPATING AREA, and as of such effective date, an adjustment shall be made in accordance with the following provisions, except to the extent otherwise specified in Section 20.5:

a. The Intangible Value of each Usable Well within such resulting area on the effective date thereof shall be credited to the PARTY or PARTIES owning such well immediately prior to such effective date, in proportion to their respective interests in such well immediately prior to such effective date. The total amount so credited as the Intangible Value of Usable Wells shall be charged to all PARTIES within the resulting area on a basis to be determined pursuant to Article 13.

b. The Value of each item of Tangible Property serving the resulting area on the effective date thereof shall be credited to the PARTY or PARTIES owning such item immediately prior to such effective date, in proportion to their respective interests in such item immediately prior to such effective date. The total amount so credited as the Value of the Tangible Property shall be charged to all PARTIES within the resulting area on a basis to be determined pursuant to Article 13.

c. If a resulting area, on the effective date thereof, is served by any Tangible Property or Usable Well which also serves another PARTICIPATING AREA or other PARTICIPATING AREAs, the Value of such Tangible Property and Usable Well (including the Intangible Value thereof) shall be determined in accordance with Subsection 20.2.d, and such Value shall be fairly apportioned between such resulting area and such other PARTICIPATING AREA or PARTICIPATING AREAs, provided that such apportionment receives the APPROVAL OF THE PARTIES

in each PARTICIPATING AREA concerned. That portion of the Value of such Tangible Property and Usable Well (including the Intangible Value thereof) which is so apportioned to the resulting area shall be included in the adjustment made as of the effective date of such resulting area in the same manner as is the Value of Tangible Property serving only the resulting area.

d. The credits and charges above provided for shall be made by OPERATOR. On each such adjustment, each PARTY who is charged an amount in excess of the amount credited it shall be "under-invested" and shall be referred to hereinafter as an "Under-Invested PARTY." Each PARTY who is credited an amount in excess of the amount it is charged shall be "over-invested" and shall be hereinafter referred to as an "Over-Invested PARTY." If a PARTY is under-invested with respect to Tangible Property and/or with respect to Intangible Value, any such under-investment shall be eliminated by making a lump sum payment within one hundred and twenty (120) days from FINAL DETERMINATION of any adjustment to the Over-Invested PARTIES. For purposes of securing payment of adjusted amounts, each PARTY shall be subrogated to the lien of OPERATOR in accordance with the provisions of Sections 5.11 and 5.12 hereof.

20.4. Method of Adjustment on Contraction. As promptly as reasonably possible after the effective date of a contraction of a PARTICIPATING AREA, an adjustment shall be made with each PARTY owning a WORKING INTEREST in land excluded from the PARTICIPATING AREA by such contraction (such WORKING INTEREST being hereinafter in this Section referred to as "Excluded Interest") in accordance with the following provisions:

a. An adjustment for intangibles shall be made in accordance with Subsection 20.4.b and a separate adjustment for Tangible Property shall be made in accordance with Subsection 20.4.c.

b. Each WORKING INTEREST OWNER owning an Excluded Interest shall be credited with the sum of (i) the total amount theretofore charged against such PARTY with respect to its Excluded Interest, pursuant to the provisions of Exhibit 3, as intangible COSTs incurred in the development and OPERATION of the PARTICIPATING AREA prior to the effective date of such contraction, plus (ii) the total amount charged against such PARTY with respect to such Excluded Interest as Intangible Value of Usable Wells in any previous adjustment or adjustments made upon the establishment or revision of such PARTICIPATING AREA. Such PARTY shall be charged with the sum of (i) the market value of that portion of the PRODUCTION of UNITIZED SUBSTANCES from such PARTICIPATING AREA which, prior to the effective date of such contraction, was delivered to such PARTY with respect to such Excluded Interest, less the amount of LEASE BURDENs and taxes (other than those based on or measured by PRODUCTION of UNITIZED SUBSTANCES) paid or payable on said portion, plus (ii) the total amount credited to such PARTY with respect to such Excluded Interest as Intangible Value of Usable Wells in any previous adjustment or adjustments made upon the establishment or revision of such PARTICIPATING AREA. Any difference between the amount of said credit and the amount of said charge shall be adjusted as hereinafter provided.

c. Each WORKING INTEREST OWNER owning an Excluded Interest shall be credited with the sum of (i) the total amount theretofore charged against such PARTY with respect to its Excluded Interest, pursuant to the provisions of Exhibit 3, as COSTs other than Intangible Value incurred in the development and OPERATION of the PARTICIPATING AREA prior to the effective date of such contraction, plus (ii) the total amount charged against such PARTY with respect to its Excluded Interest as Value of Tangible Property in any previous adjustment or adjustments made upon the establishment or revision of such PARTICIPATING AREA, plus (iii) the excess, if any of the credit provided for in Subsection 20.4.b over the charge provided for in said Subsection 20.4.b. Such PARTY shall be charged with the sum of (i) the excess, if any, of the charge provided for in said Subsection 20.4.b over the credit therein provided for, plus (ii) the total amount credited to such PARTY with respect to its Excluded Interest as Value of Tangible Property in any previous adjustment or adjustments made upon the establishment or revision of such PARTICIPATING AREA.

d. If, however, as a result of contraction of a PARTICIPATING AREA, a PARTY no longer has any WORKING INTEREST in the UNIT AREA, and the credit provided for in Subsection 20.4.c is in excess of the charge therein provided for, such excess shall be contributed to the UNIT AREA on a basis to be determined pursuant to Article 13, by the PARTIES who remain in the PARTICIPATING AREA after such contraction and OPERATOR shall make a distribution equal to such net credit to such PARTY.

20.5. Ownership of Wells and Tangible Property. From and after the effective date of a resulting area, all Usable Wells within such resulting area and all Tangible Property serving such resulting area shall be owned by the PARTIES within such area on a basis to be determined pursuant to Article 13, except that in the case of Tangible Property serving a PARTICIPATING AREA or PARTICIPATING AREAs in addition to the resulting area, only that undivided interest therein which is proportionate to that portion of the Value thereof which is included in the adjustment provided for shall be owned by the PARTIES within the resulting area on a basis to be determined pursuant to Article 13

ARTICLE 21.
INSURANCE

21.1. Insurance. No insurance shall be carried for the benefit of the JOINT ACCOUNT, except as provided under Subsections a, b, c, d, e and f below, provided however, that this shall not limit OPERATOR from requiring its contractors to carry insurance as provided by Section 21.5. Any PARTY may at its own expense acquire such additional insurance as it may deem necessary to protect itself against claims, losses, damage or destruction to property arising out of OPERATIONs hereunder. OPERATOR shall furnish a certificate of insurance executed by the company providing the insurance required hereunder certifying that all required coverages are in full force and effect, and will not be modified or canceled without at least thirty (30) days notice to the PARTIES hereto. OPERATOR is required to carry at JOINT ACCOUNT expense, insurance meeting the following requirements:

a. Worker's Compensation. At all times during the conduct of OPERATIONs hereunder, OPERATOR shall maintain in force for the benefit of the PARTIES hereto the following insurance protection with limits of not less than those stipulated below:

> Worker's Compensation Insurance in accordance with the laws of governmental bodies having jurisdiction, including, if applicable, the United States Longshore and Harbor Worker's Compensation Act and Employer's Liability Insurance arising out of maritime OPERATIONs including coverage for benefits and damages under the Jones Act. Employer's Liability Insurance shall provide coverage of ONE MILLION DOLLARS ($1,000,000) per occurrence.

Premiums for the insurance above specified shall be charged to the JOINT ACCOUNT, provided that if under the laws of the jurisdiction in which OPERATIONs are conducted, OPERATOR is authorized to be a self-insurer as to Worker's Compensation, Employer's Liability, U.S. Longshoremen's and Harbor Workers' Compensation, or Jones Act liability coverage, OPERATOR may elect to be a self-insurer and in such event OPERATOR shall charge the JOINT ACCOUNT in lieu of any premiums the COPAS recommended rate.

b. Automobile Liability. OPERATOR shall carry automobile liability with limits of ONE MILLION DOLLARS ($1,000,000) combined single limits per occurrence and aggregate for all owned, non-owned or leased vehicles used in the conduct of OPERATIONs.

c. Comprehensive General liability with limits not less than ONE MILLION DOLLARS ($1,000,000) combined single limits per occurrence and aggregate

d. Non-owned Aircraft Liability Insurance with limits not less than ONE MILLION DOLLARS ($1,000,000) combined single limits per occurrence and aggregate

e. Umbrella Liability with limits not less than ONE HUNDRED MILLION DOLLARS ($100,000,000) excess of a, b, c, and d

f. Control of Well Insurance, including Clean Up, Containment, Seepage and Pollution, and ReDRILLing, with combined limits of not less than FIFTY MILLION DOLLARS ($50,000,000) per occurrence.

21.2. Waiver of Subrogation. Each PARTY hereby waives its rights of recovery against all other PARTIES to the AGREEMENT, and agrees that all insurance policies covering its interest in the jointly owned property will be suitable endorsed to effectuate this waiver of subrogation.

21.3. Non-Consent. In case any OPERATIONs in which less than all PARTIES hereto are PARTICIPATING PARTIES under the terms of this AGREEMENT, the insurance requirements and COSTs, as well as losses, liabilities and expense incurred as the result of such OPERATIONs, shall be the burden of the PARTICIPATING PARTIES.

21.4. Indemnity. Except with respect to OPERATOR as set forth in Section 5.9 (in its capacity as OPERATOR), each WORKING INTEREST OWNER agrees to indemnify and hold harmless each other WORKING INTEREST OWNER from and against the indemnifying WORKING INTEREST OWNER's proportionate share of the total of each and every THIRD-PARTY claim (whether asserted against one or more of the WORKING INTEREST OWNERs) of every kind, including but not limited to, claims for personal injury or property damage, or both, resulting from, connected with or arising out of OPERATIONs, regardless of such WORKING INTEREST OWNER's negligence; provided, however, that notwithstanding anything to the contrary contained in this Article, no WORKING INTEREST OWNER shall be indemnified as to any liability caused or contributed to by its gross negligence or willful misconduct.

21.5. Contractor Insurance Requirements. OPERATOR shall, use commercially reasonable efforts in all contracts, to require contractors and subcontractors performing work under this AGREEMENT with respect to OPERATIONs or with respect to EQUIPMENT to obtain and maintain all insurance and bonds pertaining to that work as may be required to be carried by any applicable law, regulation, rule or contract, and as follows:

a. Workers' Compensation Insurance, including Occupational Disease coverage in accordance with the laws in the jurisdiction(s) of the work area and Employers Liability insurance with a limit of not less than ONE MILLION DOLLARS ($1,000,000) for each accident;

b. Commercial General Liability Insurance, including coverage for contractual liability insuring the indemnity agreement, if any, set forth in this AGREEMENT and products-completed OPERATIONs coverage, with limits of not less than ONE MILLION DOLLARS ($1 ,000,000) per occurrence, combined single limit for injuries or death of persons an damage to property.

c. Automobile Liability Insurance -coverage for owned, non-owned, hired and all vehicles used by contractor with limits of not less than ONE MILLION DOLLARS ($1,000,000) applicable to bodily injury, sickness or death of anyone person, ONE MILLION DOLLARS ($1,000,000) per occurrence, combined single limit, for injuries or death of persons and damage to property.

Above insurance shall be procured from insurance companies acceptable to OPERATOR. Other insurance may be required as OPERATOR deems appropriate or as required by law or regulatory authority and such insurance may be charged to the JOINT ACCOUNT. OPERATOR shall use commercially reasonable efforts to require all contractors and subcontractors to name OPERATOR and the other WORKING INTEREST OWNERs as additional insureds on the liability insurance policies carried by the contractors and subcontractors with respect to liability arising out of the work performed for OPERATOR.

ARTICLE 22.
ABANDONMENT OF WELLS AND FACILITIES

22.1. Abandonment of Dry Holes. Any well which has been DRILLed, DEEPENed, Plugged Back, or SIDETRACKed under the terms of this AGREEMENT as a dry hole (or as a well capable of producing UNITIZED SUBSTANCES in PAYING QUANTITIES from a temporary pad but deemed incapable or impractical of being COMPLETEd as a producible well by the PARTIES who participated therein), shall not be PLUGGED AND ABANDONED without the APPROVAL OF THE PARTIES who participated therein. Should any PARTY fail to reply within forty-eight (48) hours, exclusive of Saturday, Sunday and federal holidays, after receipt of notice of the proposal for the well to be PLUGGED AND ABANDONED, such PARTY shall be deemed to have consented to the proposed abandonment. All such wells shall be PLUGGED AND ABANDONED at the COST, risk and expense of the PARTIES who participated in the COST of DRILLing, DEEPENing, PLUGGING BACK or SIDETRACKing such well. Any PARTY who objects to such well being PLUGGED AND ABANDONED must propose further OPERATIONs after receipt of a proposal for the well to be PLUGGED AND ABANDONED or be deemed to have

consented to the proposed abandonment. It is understood that a State of Alaska mandated abandonment shall not require APPROVAL OF THE PARTIES; however, OPERATOR shall provide written notice to the NON-OPERATORs setting forth full details of the abandonment order so that any PARTY objecting to the order may take actions permitted by applicable laws and regulations to attempt to reverse or delay the effect of such order.

22.2. Abandonment of Wells That Have Produced. Any well which has been COMPLETEd as a producer of UNITIZED SUBSTANCES within a PARTICIPATING AREA shall not be PLUGGED AND ABANDONED until such time, if ever, as the abandonment receives the APPROVAL OF THE PARTIES within such PARTICIPATING AREA. If such APPROVAL OF THE PARTIES is obtained, the well shall be PLUGGED AND ABANDONED at the COST, risk and expense of all the PARTIES within such PARTICIPATING AREA.

22.3. Abandonment of Non-consent Operations. The provisions of Section 22.1 or 22.2 above shall be applicable as between PARTICIPATING PARTIES in the event of the proposed abandonment of any well excepted from said Sections provided, however, no well shall be permanently PLUGGED AND ABANDONED unless and until all PARTIES having the right to initiate further OPERATIONs therein have been notified of the proposed abandonment.

22.4. Abandonment of Facilities. Any Facility abandonment and removal shall require the approval of the PARTICIPATING PARTIES in the Facility and shall be accomplished by OPERATOR with the COSTs, risks, and net proceeds, if any, to be shared by the PARTICIPATING PARTIES owning such FACILITIES in proportion to their PARTICIPATING INTERESTs. It is understood and agreed that when a PARTICIPATING PARTY initially commits itself to a Development Plan, including construction and installation of FACILITIES, it shall thereupon become and remain fully liable for its full share of the COST of the construction and installation of such FACILITIES in accordance with its PARTICIPATING INTEREST, and for the salvage and removal thereof when and as required by the lease or applicable regulation, order, or rule, whether or not such PARTY subsequently withdraws from further development of the UNIT AREA or of any portion thereof after commitment for development.

22.5. Abandonment Agreement. Following the APPROVAL OF THE PARTIES of a PROPOSAL TO DEVELOP, the PARTIES shall negotiate a mutually acceptable agreement (the "Abandonment Agreement") relating to the abandonment (which term shall include dismantling, removal and transportation, together with any necessary site restoration) of the FACILITIES and pipelines used in connection with UNIT OPERATIONs. The terms of the Abandonment Agreement shall provide for:

a. an equitable sharing between the PARTIES of the COSTs and other obligations relating to the abandonment of such FACILITIES and pipelines;

b. the preparation and periodic review by OPERATOR for submission to the PARTIES of the estimated COSTs of such abandonment and of the amount and value of the remaining net recoverable reserves of that portion of the UNIT AREA served by such FACILITIES and pipelines;

c. the obligation of each PARTY either:

(1) To pay each month into an interest bearing account maintained by OPERATOR a proportionate monthly amortization amount sufficient, over the estimated life of PRODUCTION from the FACILITIES, to cover the COSTs of abandonment of OPERATIONs. The COSTs of abandonment of OPERATIONs allocable to the PARTIES shall be calculated by OPERATOR and shall include, but not be limited to, the estimated well plugging, environmental cleanup, and all removal COSTs, pursuant to the provisions of Section 22.4, less the SALVAGE VALUE of EQUIPMENT, as of the projected date on which such COSTs shall be incurred. Such estimates shall be based on an environmental study, and shall be updated at least once every five years during the term of this AGREEMENT; or

(2) Upon APPROVAL OF THE PARTIES, to provide in lieu of the provisions of paragraph c.(1) above for the following obligations of each PARTY:

(A) when the estimated value of the remaining net recoverable reserves of that portion of the UNIT AREA served by such FACILITIES and pipelines equals one hundred percent (100 %) of the said estimated abandonment COSTs, to provide to the other PARTIES adequate security for its liability to meet such abandonment COSTs;

(B) the determination and periodic review by the PARTIES (other than the PARTY proposing the creation of, or maintenance, amendment or replacement of existing, security for said liability to meet such abandonment COSTs) of the adequacy of each PARTY's security for abandonment COSTs. Any such determination shall apply to each PARTY's security for its liability to meet such abandonment COSTs; and

(C) notwithstanding the provisions of sub-paragraphs (A) and (B) immediately above, the security so to be provided by each PARTY may include, at such PARTIES option, but shall not be limited to:

(i) an irrevocable guarantee from such AFFILIATE, bank or other financial institution or other acceptable credit worthy entity;

(ii) security in favor of the PARTIES over the interest of such PARTY or a THIRD PARTY; or

(iii) a levy on such PARTY's share of the UNITIZED SUBSTANCES from the UNIT AREA.

d. In the event of the failure of any PARTY to pay any amounts due under Section 22.5 c.(1) above or to satisfy the other PARTIES as to the adequacy of the security which it proposes pursuant to sub-paragraph (c)(2) above, such PARTY's share of UNITIZED SUBSTANCES from the UNIT AREA shall be subject to a levy, the proceeds of which shall be deposited and retained by OPERATOR or an independent THIRD PARTY as trustee for the PARTIES in an interest-bearing trust account, and to the PARTY whose UNITIZED SUBSTANCES have been subject to such levy.

e. Any PARTY proposing to assign, in whole or any part, its PARTICIPATING INTEREST in the UNIT AREA shall require the assignee of its interest to ratify the Abandonment AGREEMENT and to assume liability thereunder corresponding to the interest to be assigned to it.

ARTICLE 23.
KEEPING PROPERTY FREE FROM LIENS

23.1. Keeping Property Free from Liens. Subject to the provisions of Section 5.11, the PARTIES shall endeavor to keep the SUBJECT LANDS and all property acquired or used hereunder free and clear of all liens and encumbrances.

ARTICLE 24.
OUTSIDE SUBSTANCES AND DISPOSITION OF PRODUCTION

24.1. Outside Substances. As required for OPERATIONs, OPERATOR shall contract for and obtain OUTSIDE SUBSTANCES for each PARTY for the benefit of the UNIT. OPERATOR shall charge each PARTY its proportionate share of COSTs of providing such OUTSIDE SUBSTANCES. OPERATOR shall notify the PARTIES sixty (60) days in advance of contracting for OUTSIDE SUBSTANCES. Notwithstanding the foregoing, each PARTY shall have the right but not the obligation to separately contract for OUTSIDE SUBSTANCES upon notifying the OPERATOR sixty (60) days prior to the expiration of the current contract.

24.2. Take In Kind. Each PARTY shall take in kind or separately dispose of its share of the oil and gas produced and saved from the SUBJECT LANDS.

24.3. Failure to Take In Kind. If any PARTY fails to take in kind or dispose of its share of the oil and/or condensate, OPERATOR will either:

a. purchase oil and/or condensate at OPERATOR's posted price which shall not be less than the average of the two highest posted prices in the area for comparable oil adjusted (unless adjusted by the posting) for transportation differentials to the sales transfer point or, in the absence of a posted price, at the price prevailing in the area for oil of the same kind, gravity and quality adjusted (unless adjusted by the posting) for transportation differentials to the sales transfer point; or

b. sell such oil and/or condensate to others at the price obtainable by OPERATOR, subject to revocation at will by the non-taking PARTY notice of which is delivered to OPERATOR prior to such sale. OPERATOR will furnish notification to non-taking PARTY at the time such option is exercised. Proceeds of all sales made by OPERATOR pursuant to this Section shall be paid to the PARTIES entitled thereto. Any COST incurred by OPERATOR in making delivery of any PARTY's share of oil and gas or disposing of the same shall be borne by such PARTY.

24.4. Facilities to Take In Kind. Consistent with this AGREEMENT, the PARTIES shall work together in a good faith effort to construct FACILITIES for the JOINT ACCOUNT and if the PARTIES are unsuccessful in such efforts, then any PARTY shall have the right, at its sole risk and expense, to construct FACILITIES for taking its share of PRODUCTION in kind, provided that the installation and/or OPERATION of such FACILITIES does not interfere with continuing UNIT OPERATIONs.

ARTICLE 25.
CONFIDENTIALITY OF INFORMATION

25.1. Nondisclosure of Confidential Information. The WORKING INTEREST OWNERs agree that all geophysical, geological, exploration, engineering, well test or other data or information obtained under this AGREEMENT shall be held by them and treated as confidential information during the term of this AGREEMENT and for two (2) years thereafter, and shall not be disclosed to any THIRD PARTY without the unanimous written consent of the WORKING INTEREST OWNERs paying for such data and information under this AGREEMENT. Each WORKING INTEREST OWNER shall exercise the same degree of care in protecting the confidential nature of such information as it would exercise, and expect its employees to exercise, in protecting its own confidential, proprietary information.

25.2. Exceptions to Obligations of Nondisclosure. The obligations of confidentiality and nondisclosure imposed by Section 25.1 shall be subject to the following exceptions:

a. A WORKING INTEREST OWNER may disclose or transfer data or information obtained under this AGREEMENT to any of its AFFILIATEs, provided that such AFFILIATEs are bound by the provisions of this Article.

b. A WORKING INTEREST OWNER may disclose or transfer information obtained under this AGREEMENT if such WORKING INTEREST OWNER deems it necessary to do so in order to comply with any applicable court process, valid statute, order or regulation, including the rules and regulations of the U.S. Securities and Exchange Commission or the stock exchange on which the shares of any PARTY or its ultimate parent company are listed.

c. A WORKING INTEREST OWNER may disclose information obtained under this AGREEMENT to any person serving as an independent consultant engaged by and acting on behalf of that WORKING INTEREST OWNER or any other WORKING INTEREST OWNER to render assistance in the interpretation and utilization of such information, provided that such consultant agrees in writing not to use or disclose such information, or the results of the consultant's services, for any other purpose and agrees to return such data when such assistance has been rendered. As used in this Article, the term "consultant" refers only to bona fide, independent consultants and contractors, and not to individuals, partnerships, corporations, associations or other entities, or the employees or agents of any of them, engaged in or intending to engage in the business of exploration for or production of oil, gas or other hydrocarbons.

d. A WORKING INTEREST OWNER shall not be obligated to hold in confidence information obtained under this AGREEMENT, if through no fault of that WORKING INTEREST OWNER, such information is or thereafter becomes part of the public domain.

e. A WORKING INTEREST OWNER, after notice to the other PARTIES of the name of the party to whom information will be disclosed, may disclose to a party who does not own a WORKING INTEREST in the UNIT AREA such portion or portions of said information as may be necessary (i) for any bona fide effort to obtain financing or (ii) for any bona fide effort to make sales of any of its WORKING INTEREST or Leases in accordance with this AGREEMENT, provided, that the PARTY to whom such information is disclosed agrees in writing to keep the same confidential.

f. The WORKING INTEREST OWNERs shall disclose such information to the other WORKING INTEREST OWNERs which is necessary to create a Common Data Base in connection with the Equity Determination Procedures set forth in Article 11 hereof.

ARTICLE 26.
PROPRIETARY TECHNICAL INFORMATION AND PATENT RIGHTS

26.1. Definitions. The following definitions of terms shall apply to this Article:

a. "Proprietary Technical Information" means technical information relating to EQUIPMENT and methods either (i) utilized by a WORKING INTEREST OWNER in , or (ii) made available by one WORKING INTEREST OWNER to another WORKING INTEREST OWNER for use in the conduct of OPERATIONs and clearly marked as such. Proprietary Technical Information may include, but is not limited to drawings, designs, specifications, data and other information relating to such EQUIPMENT and methods. Proprietary Technical Information shall not include the data or information described in Section 25.1, but does include interpretive analyses, data or information derived and prepared by and for a WORKING INTEREST OWNER from the data or information described in Section 25.1 provided that such derived interpretive analyses, data or information are not funded as EXPENDITURES.

b. "Own Operations" means either of the following: (i) all operations for which a WORKING INTEREST OWNER or its AFFILIATE is the operator; (ii) all operations conducted by or for a WORKING INTEREST OWNER or its AFFILIATE and as to which such WORKING INTEREST OWNER or its AFFILIATE owns a fifteen percent (15%) or greater interest.

26.2. Use of Proprietary Technical Information. A WORKING INTEREST OWNER may wish to disclose and may disclose its own Proprietary Technical Information to another WORKING INTEREST OWNER for use in the conduct of OPERATIONs hereunder. The WORKING INTEREST OWNERs agree that, except for the rights and obligations contained in separate agreements, if any, previously or hereafter negotiated between the WORKING INTEREST OWNERs, the rights and obligations of the WORKING INTEREST OWNERs with regard to the use and disclosure of Proprietary Technical Information shall be as set forth in this Article.

26.3. Terms of Use and Disclosure. With respect to Proprietary Technical Information received under this AGREEMENT by one WORKING INTEREST OWNER from another, the WORKING INTEREST OWNERs agree as follows:

a. The WORKING INTEREST OWNER receiving Proprietary Technical Information may use it in OPERATIONs conducted under this AGREEMENT or in its Own Operations anywhere in the world without obligation to make payment or account to the furnishing WORKING INTEREST OWNER for such use.

b. The WORKING INTEREST OWNER receiving Proprietary Technical Information may disclose it to those of its AFFILIATEs which have agreed in writing to be bound by the obligations of confidentiality imposed by this Article. Each such AFFILIATE may use such Proprietary Technical Information in its Own Operations anywhere in the world without obligation to make payment or account to the furnishing WORKING INTEREST OWNER for such use.

c. The WORKING INTEREST OWNER receiving Proprietary Technical Information shall exercise the same degree of care in protecting the confidential nature of such information as it would exercise, and expect its employees to exercise, in protecting its own Proprietary Technical Information.

d. The WORKING INTEREST OWNER furnishing written Proprietary Technical Information shall designate such information by clearly marking each document and each sheet thereof with the term "Proprietary Technical Information", followed by the name of the furnishing WORKING INTEREST OWNER.

26.4. Exceptions to Obligations of Confidentiality. The obligations of confidentiality imposed by the foregoing provisions of this Article shall not extend to:

a. Any Proprietary Technical Information which, at the time of its disclosure, is in fact known to a receiving WORKING INTEREST OWNER or any of its AFFILIATEs.

b. Any Proprietary Technical Information which is disclosed to a WORKING INTEREST OWNER or its AFFILIATEs by a person not a PARTY to this AGREEMENT as a matter of right and without restriction on use or disclosure.

c. Any Proprietary Technical Information which, at or subsequent to the time of disclosure or utilization, is or becomes generally known on a non-confidential basis to those engaged in the regulation or the business of exploration and production of hydrocarbons.

d. The disclosure of any Proprietary Technical Information as required by laws, regulations, or court process.

26.5. Patents and Inventions. The following provisions of this Article apply to the rights and obligations of the WORKING INTEREST OWNERs with respect to patents and inventions involved in, covered by or arising from OPERATIONs hereunder:

a. Separate Inventions by the WORKING INTEREST OWNERs. Inventions which arise out of any separate research and development agreement with THIRD PARTIES entered into for the benefit of the JOINT ACCOUNT and paid for by two or more of the WORKING INTEREST OWNERs, for the development of EQUIPMENT or methods needed in OPERATIONs, shall belong jointly to such WORKING INTEREST OWNERs who paid for such development. Each such WORKING INTEREST OWNER shall own an undivided interest in any such inventions, including any and all patents (both domestic and foreign) based on such inventions and in any such developed technical information equal to its share of the obligation to bear the COST of such research and development. Each such WORKING INTEREST OWNER shall have the right to license others to make, use or sell such inventions under such patents and/or developed technical information with no accounting to the other WORKING INTEREST OWNERs.

b. Inventions by JOINT ACCOUNT. Inventions and any resulting patents which arise out of work financed by the JOINT ACCOUNT shall belong jointly to the WORKING INTEREST OWNERs who paid for such work. Each WORKING INTEREST OWNER shall have the right to use such inventions and patents in its Own Operations. Further, each WORKING INTEREST OWNER shall have the right to license others to make, use or sell such inventions under such patents with no accounting to the other WORKING INTEREST OWNERs.

c. Proprietary Patent Rights. With reference to, but only with reference to OPERATIONs conducted by OPERATOR, each WORKING INTEREST OWNER, including OPERATOR, agrees to hold each other free and harmless from any and all claims for patent infringement which are based on any patent or patents owned or controlled by such WORKING INTEREST OWNER or its AFFILIATEs.

d. Technology Licensed From THIRD PARTIES. Any technology, such as but not limited to, software and the like, or rights in such technology licensed from THIRD PARTIES by OPERATOR, as an operating expense, for OPERATIONs shall be made available upon written request to the WORKING INTEREST OWNERs to the extent permitted in and subject to any conditions required for such availability in the agreement under which such technology or rights in technology were obtained.

26.6. Contracting With Third Parties. In contracting with THIRD PARTIES for the performance of any work constituting a part of UNIT OPERATIONs, OPERATOR shall exercise its commercially reasonable efforts to obtain

the agreement of each such THIRD PARTY to defend and hold harmless each of the WORKING INTEREST OWNERs with respect to any suit or action for patent or copyright infringement or misappropriation of trade secrets or confidential information which may be brought against any WORKING INTEREST OWNER based upon the work carried out by such THIRD PARTY. In the event any such claim, suit or action is brought against any of the WORKING INTEREST OWNERs based upon the performance of any part of OPERATIONs, the COSTs of defending such suit or action, and any damages or royalties which may be awarded to the plaintiff therein (to the extent such COSTs or damages are not borne by any THIRD PARTY who shall have agreed to defend and hold harmless as provided in the preceding sentence) shall be for the JOINT ACCOUNT; provided, however, that should any of the WORKING INTEREST OWNERs be already licensed under the rights involved in such suit or action, such WORKING INTEREST OWNER shall not be required to contribute to the JOINT ACCOUNT the portion of such COSTs and damages as it would otherwise be obligated to contribute to the extent that such COSTs and damages are reduced by reason of such license.

ARTICLE 27.
WITHDRAWALS, SURRENDERS AND TRANSFERS

27.1. Withdrawal. A WORKING INTEREST OWNER may withdraw from the SUBJECT LANDS outside the UNIT, or the UNIT or from any PARTICIPATING AREA within the UNIT by transferring, subject to and except as provided for in Section 4.4, without warranty of title, to the other WORKING INTEREST OWNERs who own WORKING INTERESTs in such area from which such WORKING INTEREST OWNER is withdrawing all of its WORKING INTEREST in such area, exclusive of royalty interests, together with its corresponding interest in all EQUIPMENT and in all wells used in OPERATIONs thereon, without compensation for such rights and interests, subject to the following:

a. Existing Obligations. Such transfer and withdrawal shall not be effective unless and until (i) sixty (60) days have elapsed after advance notice to all other WORKING INTEREST OWNERs in the SUBJECT LANDS of the intent to withdraw, (ii) all obligations and liabilities incurred by said WORKING INTEREST OWNER under this AGREEMENT with respect to said WORKING INTEREST and EQUIPMENT and all limitations and conditions covering or affecting said WORKING INTEREST and EQUIPMENT under all applicable provisions of this AGREEMENT have been fully satisfied and discharged, and (iii) the withdrawing WORKING INTEREST OWNER's share of the COSTs of abandonment including environmental cleanup and restoration of OPERATIONs estimated pursuant to the provisions of Article 22 and this Article as applicable to said WORKING INTEREST OWNER and EQUIPMENT, less the SALVAGE VALUE of such UNIT AREA EQUIPMENT, as of the time of withdrawal as such COSTs and value are determined pursuant to Section 22.4 and approved by an affirmative vote of seventy-five percent (75%) of the remaining WORKING INTEREST OWNERs, after excluding the withdrawing WORKING INTEREST OWNER, and has been fully paid into an interest-bearing account maintained by OPERATOR for the benefit of each WORKING INTEREST OWNER in proportion to its acquired interests as provided in Subsection 27.1.c. Unless waived by APPROVAL OF THE PARTIES (utilizing voting percentages based only on the remaining PARTIES) an environmental update study shall be conducted to assess possible environmental damage. Said study shall be paid fifty percent (50%) by the Withdrawing PARTY and fifty percent (50%) by the remaining PARTIES; provided, however, that if the Withdrawing PARTY owns a PARTICIPATING INTEREST of more than fifty percent (50%), the COST of said study shall be borne in proportion to the then current WORKING INTERESTs of the PARTIES.

b. Limitation on Withdrawal. WORKING INTEREST OWNERs in the SUBJECT LANDS may refuse to permit the withdrawal of a WORKING INTEREST OWNER if its WORKING INTEREST is burdened by any royalty, overriding royalty, PRODUCTION payment, net proceeds interest, carried interest, or other interest created out of the WORKING INTEREST in excess of those listed on Exhibit 1 as of the EFFECTIVE DATE of this AGREEMENT, unless the other WORKING INTEREST OWNERs in the subject area agree to accept the WORKING INTEREST subject to such burdens.

c. Transfer Instrument and Interest. The instrument of transfer may be delivered to OPERATOR for the transferees. Unless otherwise agreed to between the remaining WORKING INTEREST OWNERs, the interest transferred shall be owned by the transferees in proportion to their PARTICIPATING INTEREST in the subject area.

d. Effect of Transfer. Such transfer shall not relieve the withdrawing WORKING INTEREST OWNER of any known or unknown obligation or liability incurred or arising out of a transaction or event occurring prior to the effective date of the transfer. After the transfer has become effective, the withdrawing WORKING INTEREST OWNER shall be relieved from all further obligations and liability under this AGREEMENT and under the UNIT AGREEMENT, if applicable, with respect to said WORKING INTERESTs and UNIT AREA EQUIPMENT, and the rights of such WORKING INTEREST OWNER under this AGREEMENT and under the UNIT AGREEMENT, if applicable, shall cease insofar as they existed by virtue of the interest transferred; provided, however, notwithstanding Section 26.4, if the subject area is terminated within five (5) years after a withdrawal pursuant to this Article, then the withdrawing WORKING INTEREST OWNER shall pay to the other WORKING INTEREST OWNERs, as provided above, its proportionate share of actual abandonment COSTs, less SALVAGE VALUE, that exceed the estimated abandonment COSTs, less SALVAGE VALUE, or be reimbursed for any payment of estimated abandonment COSTs, less SALVAGE VALUE, that exceeds its proportionate share of actual abandonment COSTs, less SALVAGE VALUE.

27.2. Surrender of Tract. If a TRACT is committed in whole or in part to one or more PARTICIPATING AREAs, the WORKING INTEREST OWNERs of the TRACT may surrender the oil and gas lease or SUBSURFACE ESTATE covering such TRACT if, and only if, such surrender is Approved by the PARTIES by separate affirmative votes of the WORKING INTEREST OWNERs of each such PARTICIPATING AREA. If the WORKING INTEREST OWNERs of an oil and gas lease or SUBSURFACE ESTATE covering a TRACT, no part of which is included in a PARTICIPATING AREA, desire to voluntarily surrender such oil and gas lease or SUBSURFACE ESTATE, such WORKING INTEREST OWNERs shall first tender all of their right, title and interest in such oil and gas lease or SUBSURFACE ESTATE to the other WORKING INTEREST OWNERs in the SUBJECT LANDS, who shall be entitled to receive an assignment thereof in undivided interests in proportion to the holdings on an ACREAGE BASIS in the SUBJECT LANDS of all such WORKING INTEREST OWNERs who desire to accept such assignment. Any assignment pursuant to this Section shall be made in accordance with Section 4.4 hereof. If such tender is not accepted within thirty (30) days by any of the other WORKING INTEREST OWNERs, such oil and gas lease may be surrendered and released by the owners thereof. No surrender referred to in this Section 27.2 will be effective until the first day of the month following the delivery to OPERATOR of an original or a certified copy of the instrument of surrender conforming to the requirements of this Section 27.2 and approved by the AGENCY. No surrender will relieve the surrendering WORKING INTEREST OWNER of any known or unknown obligations or liabilities incurred or arising out of a transaction or event occurring prior to the effective date of the surrender.

27.3. Transfer of Interest. A WORKING INTEREST OWNER may transfer all or part of its right, title and interest in the UNIT AREA or SUBJECT LANDS, subject to the provisions of this Section 27.3, Article 28 and Exhibit 5.

a. Limitations on Transfer.

(1) Financial Capability. The transferee of any WORKING INTEREST must be financially capable of carrying out the obligations and of paying any liabilities that may attach to the transferred interest pursuant to this AGREEMENT and the UNIT AGREEMENT. Any transfer will be made expressly subject to the UNIT AGREEMENT and this AGREEMENT. For the transfer to become effective the transferee must execute a written joinder to the UNIT AGREEMENT and this AGREEMENT and must agree, in writing, to perform all the obligations of the transferring WORKING INTEREST OWNER under this AGREEMENT relating to the interest transferred. In case of transfer by mortgage or other security instrument, however, such assumption of obligations shall not be required; provided, however, that if such mortgage or other security instrument is foreclosed, the successor in interest on foreclosure shall take subject to this AGREEMENT and the UNIT AGREEMENT, if applicable.

(2) Liabilities and Obligations. No transfer referred to in this Section 27.3, will be effective until the first day of the month following the delivery to OPERATOR of an original or a certified copy of the instrument of transfer conforming to the requirements of this Section 27.3 and approved by the AGENCY. No transfer will relieve the transferring WORKING INTEREST OWNER of any known or unknown obligations or liabilities incurred or arising out of a transaction or event occurring prior to the effective date of the transfer.

27.4. Additional Requirements for Surrender or Transfer. No surrender or transfer shall be effective unless and until (i) all obligations and liabilities incurred by said WORKING INTEREST OWNER under all applicable provisions of this AGREEMENT have been fully satisfied and discharged, and (ii) the surrendering or transferring WORKING

INTEREST OWNER's share of the COSTs of abandonment of OPERATIONs has been fully paid into an interest bearing account maintained by OPERATOR for the benefit of each WORKING INTEREST OWNER in proportion to its WORKING INTEREST. The COSTs of abandonment of OPERATIONs shall include the estimated environmental cleanup and restoration COSTs, pursuant to the provisions of Section 22.4, less the SALVAGE VALUE of EQUIPMENT, as of the time of surrender or transfer as such COSTs and value are determined pursuant to Section 22.4 and approved by an affirmative vote of seventy-five percent (75%) of the remaining WORKING INTEREST OWNER(s) and excluding the interests of the surrendering or transferring WORKING INTEREST OWNER(s).

ARTICLE 28.
MAINTENANCE OF UNIFORM INTEREST

28.1. Maintenance of Uniform Interest. Except as provided in Article 27, for the purpose of maintaining uniformity of ownership in the WORKING INTERESTs covered by this AGREEMENT and unless otherwise provided for herein, no PARTY shall sell, encumber, transfer or make other disposition of its WORKING INTEREST in a lease or SUBSURFACE ESTATE in the SUBJECT LANDS and in UNIT wells, UNIT AREA EQUIPMENT, UNIT EQUIPMENT and PRODUCTION or UNITIZED SUBSTANCES unless such disposition covers either:

a. the entire WORKING INTEREST in a lease or SUBSURFACE ESTATE in the SUBJECT LANDS and in UNIT wells, UNIT AREA EQUIPMENT and PRODUCTION or UNITIZED SUBSTANCES; or

b. an equal undivided WORKING INTEREST in any given formation or formations within all its leases or SUBSURFACE ESTATE in the SUBJECT LANDS and in UNIT wells, UNIT AREA EQUIPMENT and PRODUCTION or UNITIZED SUBSTANCES. Every such sale, encumbrance, transfer or other disposition made by any PARTY shall be made expressly subject to this AGREEMENT and shall be made without prejudice to the right of the other PARTIES. Notwithstanding anything to the contrary contained herein, no PARTY shall have the right to transfer less than an equal undivided proportionate part of its benefits and liabilities hereunder.

28.2. Designation of Agent for Co-owners. If, at any time the interest of any PARTY is divided among and owned by three (3) or more co-owners, OPERATOR, at its discretion, may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve EXPENDITURES, receive billings for and approve and pay such PARTY's share of the joint expenses, and to deal generally with, and with power to bind, the co-owners of such PARTY's interest within the scope of the OPERATIONs embraced in this AGREEMENT; however, all such co-owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of the PRODUCTION or UNITIZED SUBSTANCES produced from the SUBJECT LANDS and they shall have the right to receive, separately, payment of the sale proceeds thereof.

ARTICLE 29.
TAXES

29.1. Taxes. Any and all ad valorem taxes payable upon materials, EQUIPMENT or other property acquired and held by OPERATOR hereunder, shall be paid by OPERATOR as and when due and payable. Taxes upon materials, EQUIPMENT and other property acquired and held by OPERATOR hereunder shall be charged to and borne by the PARTIES owning the same in proportion to their ownership. Each PARTY shall bear and pay, or cause to be paid, all PRODUCTION, severance, gathering or other taxes, imposed on such PARTY's respective interest in any PRODUCTION obtained hereunder of the proceeds thereof.

Each NON-OPERATOR shall promptly furnish OPERATOR with copies of notices, assessments, levies or tax statements received by it pertaining to the taxes to be paid by OPERATOR. OPERATOR shall make such returns, reports and statements as may be required by law in connection with any taxes above provided to be paid by it and shall furnish copies to NON-OPERATORs. OPERATOR shall notify the NON-OPERATORs of any tax which it does not propose to pay before such tax becomes delinquent.

29.2. Contest of Property Tax Valuation. OPERATOR shall timely and diligently protest to a final determination any valuation it deems unreasonable. Pending such determination, OPERATOR may elect to pay under

protest. Upon final determination, OPERATOR shall pay the taxes and any interest, penalty, or COST accrued as a result of such protest. In either event, OPERATOR shall charge each PARTY its share set forth in Section 11.1.

ARTICLE 30.
EQUAL OPPORTUNITY, SAFETY, AND HEALTH

30.1. Equal Opportunity, Safety, and Health. In connection with the performance of work conducted under this AGREEMENT, OPERATOR agrees to comply and to require all contractors to comply with all valid and applicable federal and state laws, regulations, and order, including safety and health standards and nondiscrimination which shall include, but not necessarily be limited, to Executive Orders 11246, 11375, 11598, and 11758, as amended, and Title 18, Chapter 80, Articles 4 and 5, Alaska Statutes, as amended. Without limiting the generality of the foregoing, the provisions set out in Exhibit 4 attached hereto, are made a part hereof with the understanding that the word "Contractor," as used therein, also has the same meaning as "OPERATOR," as used herein.

ARTICLE 31.
INCOME TAX PROVISIONS

31.1. General Rule: No Tax Partnerships: The PARTIES hereby agree and intend that the OPERATIONs covered by this AGREEMENT will not be treated as a partnership under the provisions of Subchapter K, Chapter 1, Subtitle A, Internal Revenue Code of 1986 as amended, insofar as that Subchapter may be applicable to each PARTY's interest covered by this AGREEMENT. Similarly the PARTIES agree and intend that the OPERATIONs covered by this AGREEMENT will not be treated as a partnership under the income tax laws of any state or local government.

31.2. TAX PARTNERSHIP if Disproportionate Spending: Notwithstanding the provisions of Section 31.1 above, should disproportionate spending be required pursuant to Article 12, or should any PARTY refuse or elect not to participate in an OPERATION conducted pursuant to Articles 14 and 15 of this AGREEMENT, therein resulting in disproportionate spending by the PARTIES in that OPERATION, then the PARTIES shall enter into a TAX PARTNERSHIP, solely for income tax purposes.

ARTICLE 32.
REPRESENTATIVES AND NOTICES

32.1. Representatives. Each PARTY shall appoint a representative and alternate representative authorized to represent such PARTY as to all matters relating to this AGREEMENT and to be responsible for giving, or securing, with the least possible delay, that PARTY's decision on each matter submitted for consideration. Each PARTY shall furnish in writing to all other PARTIES the name of its representative and alternate representatives who will continue to serve until replaced. Replacements of representatives and alternative representatives may be made, from time to time, by giving notice to all PARTIES.

32.2. Giving and Receipt. Notices hereunder shall be addressed as follows:

COOK INLET ENERGY, LLC
601 W. 5th Avenue, Suite 310
Anchorage, AK 99501
Telephone: 907-334-6745
Facsimile: 907-334-6735
Attn: JR Wilcox, President

Except as otherwise specified in this AGREEMENT, any notice provided for or permitted to be given by a PARTY hereto shall be given in writing and delivered in person to the named representative or sent by First Class United States mail, overnight delivery service, by facsimile properly addressed to the PARTY to whom given, with postage and charges prepaid. Notices are deemed given when delivered to the PARTY identified above. Any PARTY may, at any

time and from time to time, change its named representative, or address, or both, for the purpose of this AGREEMENT by notice in writing to the other PARTIES specifying such change.

Except as otherwise specifically specified in this AGREEMENT, all time periods provided herein requiring notice by a PARTY shall be inclusive of Saturday, Sunday and federal holidays.

ARTICLE 33.
EFFECTIVE DATE AND TERM

33.1. Term. This AGREEMENT shall become binding upon execution by all PARTIES upon the EFFECTIVE DATE and shall remain in effect from such EFFECTIVE DATE and for so long as any of the SUBJECT LANDS remain in effect. Termination of this AGREEMENT shall not relieve any PARTY from any COSTs, liability or obligations accrued or incurred prior to the termination of this AGREEMENT, and the provision of this AGREEMENT shall continue in force for such additional time as necessary until:

a. all wells have been permanently PLUGGED AND ABANDONED;

b. all property and EQUIPMENT in the SUBJECT LANDS belonging to the PARTIES are disposed of by OPERATOR and all claims or lawsuits have been settled or otherwise disposed of; and

c. a final accounting and settlement has been made under this AGREEMENT.

OPERATOR shall have a reasonable period of time after the occurrence of an event of termination in which to conclude the administration of UNIT OPERATIONs and to make a distribution of assets. During this period of time, OPERATOR shall continue to have and shall exercise all powers granted and meet all duties imposed by this AGREEMENT until all provisions of this AGREEMENT are fully executed.

ARTICLE 34.
FORCE MAJEURE

34.1. Definition. As used in this AGREEMENT, "Force Majeure" means strike, lockout or other labor dispute; fire; flood; storm; ice floe; lightning; earthquake; volcanic eruption; explosion; war; acts of terrorism; civil disturbance; blockade; act of God; governmental restraint imposed or caused by federal, state, county or municipal law or by any rule, regulation, ordinance or order of or delay or failure to act by a federal, state, county, municipal or other government AGENCY; inability to secure required federal, state, county, municipal or other governmental permits, approvals or easements; any judicial acts or restraints; accidents; uncontrollable delays in delivery or transportation of materials to the site of use; inability to obtain necessary materials in the open market; or any other cause, except the inability to pay money, beyond the reasonable control of the WORKING INTEREST OWNER claiming the Force Majeure, whether similar to matter specified in this Section 34.1 or not.

34.2. Suspension of Obligations. If, as a result of Force Majeure, OPERATOR or any WORKING INTEREST OWNER is unable to carry out, in whole or in part, its obligations under this AGREEMENT, such PARTY shall give OPERATOR and all other WORKING INTEREST OWNERs prompt and reasonably detailed notice of the Force Majeure. Thereupon, except for obligations to make payments of money, the obligations of the PARTY giving the notice, so far as they are obligations affected by the Force Majeure, shall be suspended during, but no longer than, the existence of the Force Majeure. The affected PARTY shall use all reasonable diligence to remove the Force Majeure as quickly as possible; except, however, that the affected PARTY shall not be required to settle any strikes, lockouts or other labor disputes and the handling of such matters shall be entirely within the judgment and discretion of the affected PARTY.

ARTICLE 35.
MEDIA RELEASES

35.1. Public Releases by an Individual Party. If any PARTY shall itself wish to issue or make any public release of confidential information regarding OPERATIONs under this AGREEMENT, it shall not do so unless prior thereto it furnishes all the PARTICIPATING PARTIES with a copy of such announcement or statement and obtains the Approval of PARTICIPATING PARTIES provided that, notwithstanding any failure to obtain such Approval, no PARTY or any AFFILIATE shall be prohibited from issuing or making any such public announcement or statement if such PARTY deems it is necessary to do so in order to comply with any applicable valid statute, order, or regulation, including the rules and regulations of the U.S. Securities and Exchange Commission or the stock exchange on which the shares of any PARTY or its ultimate parent company are listed; provided further, an announcement or statement approved for OPERATOR's release under this Section 35.1 may be released by any other PARTY without obtaining any further Approval from the PARTICIPATING PARTIES but only after the announcement or statement has first been made by OPERATOR. Such release shall give all PARTICIPATING PARTIES equal credit for their participation in the OPERATIONs unless otherwise requested by any PARTY with regard to its inclusion.

ARTICLE 36.
MISCELLANEOUS

36.1. Gender and Number. In this AGREEMENT, whenever the context so requires, the neuter gender includes the masculine and feminine, the singular includes the plural, and vice versa.

36.2. Successors and Assigns. The provisions of this AGREEMENT shall be binding upon and inure to the benefit of the successors and permitted assigns of the PARTIES. This AGREEMENT does not benefit or create any rights in a person or entity that is not a PARTY to this AGREEMENT.

36.3. Conflicts of Interest. Conflicts of interest related to this AGREEMENT are strictly prohibited. Except as otherwise expressly provided herein, no PARTY or any director, employee or agent of any PARTY shall give to or receive from any director, employee or agent of any PARTY any gift, entertainment or other favor of significant value, or any commission, fee or rebate. Any representative(s) authorized by one PARTY may audit the appropriate records of another PARTY solely for the purpose of determining whether there has been compliance with this Section 36.3.

36.4. Headings. The underlined headings used in this AGREEMENT are inserted for administrative convenience only and shall be disregarded in construing this AGREEMENT.

36.5. Interpretation. This AGREEMENT and the rights and obligations of the PARTIES under this AGREEMENT as between themselves will be governed by and construed in accordance with the laws of the State of Alaska and it is further agreed that any conflict of law doctrine which may direct or refer determination of any matter to the law of any other jurisdiction shall not be utilized. Any suit between the PARTIES arising out of this AGREEMENT shall be brought only in the Superior Court for the State of Alaska, Third Judicial District at Anchorage or in the United States District Court for the District of Alaska, as appropriate.

36.6. Entirety of AGREEMENT. This AGREEMENT expresses the entire understanding and agreement of the PARTIES and replaces all prior agreements or understandings, whether oral or written, relating in any way to its subject matter.

36.7. Counterpart Execution. This AGREEMENT may be executed by signing the original or a counterpart, including facsimile counterparts thereof. If this AGREEMENT is executed in counterparts, all counterparts including facsimile counterparts taken together shall have the same effect as if all the PARTIES had signed the same instrument.

36.8. Amendment or Modification. This AGREEMENT may not be amended or modified unless in writing designated as an amendment or modification and executed by all of the PARTIES.

36.9. Waiver. A term, provision, covenant, representation, warranty, or condition of this AGREEMENT may be waived only by written instrument executed by the PARTY waiving compliance. The failure or delay of a PARTY in the enforcement or exercise of the rights granted under this AGREEMENT shall not constitute a waiver of said rights

nor shall it be considered as a basis for estoppel. Time is of the essence in the performance of this AGREEMENT and all time limits shall be strictly construed and enforced.

36.10. Waiver of Right to Partition. Each PARTY waives the right to bring an action for partition of its interest in the SUBJECT LANDS and EQUIPMENT held under this AGREEMENT, and covenants that during the existence of this AGREEMENT it shall not resort at any time to an action at law or in equity to partition any or all of the SUBJECT LANDS and EQUIPMENT or other personal property subject to this AGREEMENT.

36.11. Compliance with Laws and Regulations. This AGREEMENT and all activities or OPERATIONs conducted by the PARTIES under this AGREEMENT, are expressly subject to, and shall comply with, all laws, orders, rules, and regulations of all federal, state, and local governmental authorities having jurisdiction over the SUBJECT LANDS.

36.12. Severability. If, for any reason and for so long as a clause or provision of this AGREEMENT is held by a court of competent jurisdiction to be illegal, invalid, unenforceable or unconscionable under a present or future law (or interpretation thereof), the remainder of this AGREEMENT will not be affected by that illegality or invalidity. An illegal or invalid provision will be deemed severed from this AGREEMENT, as if this AGREEMENT had been executed without the illegal or invalid provision. The surviving provisions of this AGREEMENT will remain in full force and effect unless the removal of the illegal or invalid provision destroys the legitimate purposes of this AGREEMENT; in which event this AGREEMENT shall be null and void.

36.13. Article References. Except as otherwise provided in this AGREEMENT, each reference to an article of this AGREEMENT includes all of the referenced article and its sections and sub-sections.

36.14. Joint Preparation. This AGREEMENT shall be deemed for all purposes to have been prepared through the joint efforts of the PARTIES and shall not be construed for or against one PARTY or the other as a result of the preparation, submittal, drafting, execution or other event of negotiation hereof.

36.15. Further Assurances. Each PARTY will take all actions necessary and will sign all documents necessary to implement this AGREEMENT, except as otherwise provided in this AGREEMENT.

Executed this 16 day of January, 2013 by Walter J. Wilcox II, President, on behalf of Cook Inlet Energy, LLC, being the Unit Operator and 100% Working Interest Owner.

Walter J. Wilcox II